



INDIA NIPPON ELECTRICALS LIMITED



**21st ANNUAL REPORT
2005-2006**



INDIA NIPPON ELECTRICALS LIMITED

Board of Directors

Chairman

T K BALAJI

Directors

R D FLINT

A T ERASAKI

H NANJO

K SESHADRI

K N RAMASWAMI

K R ANANDAKUMARAN NAIR

K G RAGHAVAN

R VIJAYARAGHAVAN

Audit Committee

R VIJAYARAGHAVAN
(Chairman)

K SESHADRI

K G RAGHAVAN

Investors' Grievance Committee

T K BALAJI

K SESHADRI

R VIJAYARAGHAVAN

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

Bombay Stock Exchange Ltd., Mumbai

Registered Office

'Aalim Centre'

82 Dr. Radhakrishnan Salai, Mylapore

Chennai 600 004

Ph : 28110063 / 28110074

e mail : inelcorp@inel.co.in

Factories

1. Hosur-Thalli Road

Uliveeranapalli 635 114

Denkanikotta Taluk

Krishnagiri District - Tamilnadu

Ph : 04347 - 233432 - 233438

email : inelhsr@inel.co.in

2. Madukarai Road

Kariamanickam

Nettapakkam Commune

Pondicherry 605 106

Ph : 0413 - 2699052 / 2699402

email : inelpondy@inel.co.in

3. Masani Village

Rewari District, Haryana 122 106

Ph : 01274 - 240860 / 240212

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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									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Profit and Loss Account											
1. Sales (including Excise duty)		6602	7108	8507	9797	11130	11779	16902	17346	17509	16778
2. Other income		87	96	192	248	344	276	459	608	243	543
3. Total income (1+2)		6689	7204	8699	10045	11474	12055	17361	17954	17752	17321
4. Gross Profit before interest, depreciation and tax		1365	1470	1754	2165	2411	2633	4103	3991	3018	2885
5. Depreciation		225	225	211	240	291	283	327	476	436	428
6. Profit before interest & tax		1140	1245	1543	1925	2120	2350	3776	3515	2582	2457
7. Interest		35	16	18	13	24	10	39	13	10	11
8. Profit before tax		1105	1229	1525	1912	2096	2340	3737	3502	2572	2446
9. Profit after tax		675	753	909	1191	1386	1762	2770	2499	1847	2025
Balance Sheet											
10. Net Fixed Assets (including revaluation reserves)		609	1111	1092	1211	1391	1356	1905	2576	2462	2291
11. Investments		206	301	700	2182	2619	2903	4674	5647	6353	7749
12. Net Current Assets		1187	1464	1848	1118	1393	1666	1330	1410	1885	1994
13. Total (10+11+12)		2002	2876	3640	4511	5403	5925	7909	9633	10700	12034
14. Share capital		198	198	515	515	515	475	808	808	808	808
15. Reserves & Surplus		1699	2562	2808	3599	4539	5055	6718	8442	9509	10843
16. Net Worth (14+15) (including revaluation reserves)		1897	2760	3323	4114	5054	5530	7526	9250	10317	11651
17. Loan funds		105	116	317	397	349	395	383	383	383	383
18. Total		2002	2876	3640	4511	5403	5925	7909	9633	10700	12034
19. Return on Net Worth (%) (excluding revaluation reserves)		40	33	32	33	30	35	39	28	19	18
20. Return on Capital Employed (%) (excluding revaluation reserves)		64	52	48	47	43	43	51	38	25	21
21. Earning per share (Rs.)		34	38	18	23	27	22	34	31	23	25
22. Dividend per share (Rs.)		5	6	6	7	8.5	10	8.5	8.5	8.5	7.5
23. Book value per share (Rs.) (excluding revaluation reserves)		84	116	56	71	89	107	88	109	122	139
24. Fixed Assets Turnover (No.of times)		11	6	8	8	8	9	9	7	7	7
25. Working Capital Turnover (No.of times)		6	5	5	9	8	7	13	12	9	8
26. Gross profit as % of total income		20	20	20	22	21	22	24	22	17	17
27. Net profit as % of total income		10	10	10	12	12	15	16	14	10	12
28. No. of Employees		284	289	323	330	420	450	485	521	557	618
29. No. of Shareholders		3494	3463	3484	3464	3515	3776	3987	4088	4516	4576

NB : Fixed assets revalued in March '93 - Rs.230.71 lacs, in March'98 - Rs.233.31 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 Twenty First Annual General Meeting of the Shareholders of the Company will be held on Monday, the 14th August, 2006 at Kasturi Srinivasan Hall [Music Academy Annexe] 306, T T K Road, Chennai 600 014 at 10 A.M.

Ordinary Business

1. Adoption of audited accounts for the year ended 31.03.2006 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 2006 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 the first interim dividend of Rs.4.50 per share, declared by the Board of Directors of the Company on 27.12.2005 together with the second interim dividend of Rs.3 per share declared by the Board of Directors of the Company on 20.03.2006 on 8079080 equity shares of Rs.10/- each fully paid, absorbing a total sum of Rs.605.93 lacs (excluding dividend tax of Rs.84.98 lacs paid) in the aggregate and paid to the shareholders on 9th January, 2006 and 3rd April, 2006 respectively, be and are hereby treated as the final dividend for the year ended 31st March, 2006 and recommended to the General Meeting of the Company.

3. 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.

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 R Anandakumaran Nair, be and is hereby appointed as Director of the Company liable for retirement by rotation".

Special Business

5. 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 Vijayaraghavan, be and is hereby appointed as Director of the Company liable for retirement by rotation".

By order of the Board

Chennai
7th June 2006

A R RAJAGOPALAN
Financial Controller & Secretary

INDIA NIPPON ELECTRICALS LIMITED

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 8th August, 2006 to 14th August, 2006 (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 31.03.1999 and remaining unclaimed as on 18th October 2006 will be transferred to the Investors Education and Protection Fund on 18th October, 2006. 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. 4 of the Notice to Shareholders

Mr K R Anandakumaran Nair (Age 66) is a graduate from Kerala University and an M.Tech from IIT, Mumbai. He was co-opted as a Director by the Board on 1st April 1999. He served for 14 years in Best & Crompton. He was responsible for building up an excellent research team that worked on multidiscipline areas like, microprocessor based controls, power electronics, actuators and hydraulic machinery in Best & Crompton.

Currently he is the Executive Director-Development of Lucas-TVS and is responsible for all product and manufacturing process developments as well as for a large special purpose machinery division.

He is also a Director in India Japan Lighting Pvt. Ltd. He does not hold any membership of committees of Board.

He has spent the last 38 years in managing technology development and product development.

He is keenly interested in Computer Aided Engineering and Product Life Cycle Management. His special interests are CAD/CAM, Design Automation, Technology Innovation Management, Automobile Electronics and Creativity.

He does not hold shares in India Nippon Electricals Ltd.



Sl. No. 5 of the Notice to Shareholders

Shri R Vijayaraghavan [Age 56] is a partner of the Law firm M/s Subbaraya Aiyer Padmanabhan and Ramamani, Chennai for the past 17 years. He is associated as a director with 11 other companies.

He holds a Master Degree in Science with MBA from USA and is a Bachelor of Law.

His areas of specialisation are Income Tax Law, Corporate and Commercial Law.

He is also a director in Sanco Trans Limited, Neyveli Lignite Corporation Limited, Amrutanjan Limited, Redington (India) Limited, Thiru Arooran Sugars Limited, Shree Ambika Sugars Limited, Terra Energy

Limited, Strategic Management & Marketing Consultancy Services Ltd., Prime Technology Resources Management Limited, Sri Nachamai Cotton Mills Limited and TVS Finance & Services Limited.

He is also a member in audit committee of Amrutanjan Limited, Redington (India) Ltd., Sanco Trans Ltd., Shree Ambika Sugars Limited, Thiru Arooran Sugars Limited, Terra Energy Limited and TVS Finance & Services Ltd.

He is also a member in investor grievance committee of Neyveli Lignite Corporation Ltd.

He does not hold shares in India Nippon Electricals Limited.

INDIA NIPPON ELECTRICALS LIMITED

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 7th June 2006 and shall be taken as forming part of the notice.

Appointment of Director

Mr R Vijayaraghavan was appointed as a Director with effect from 25.03.2005 in the casual vacancy caused by the resignation of Mr Gopal Srinivasan.

The Company has received from a shareholder a Notice under section 257 of the Companies Act, 1956 intimating his intention to propose the appointment of Mr R Vijayaraghavan as a Director of the Company at this meeting and for that purpose to move a resolution set out under item 5 of the Notice.

Interest of Directors

Mr R Vijayaraghavan is interested in the resolution relating to his appointment as a Director of the Company.





Directors' Report to the Shareholders

Your Directors have pleasure in presenting the Twenty First Annual Report and Audited Accounts for the year ended 31st March, 2006.

1. FINANCIAL HIGHLIGHTS

	Rs.Lacs	
	Yead ended 31st Mar '06	Year ended 31st Mar '05
Sales (including excise duty)	16778	17509
Profits from Operations before depreciation and finance charges	2342	2775
Other income	543	243
Less: Depreciation	428	436
Finance charges	11 439	10 446
Profits before tax	2446	2572
Balance brought forward from previous year	820	800
	3266	3372
Provision for taxation :		
Current tax	438	732
Fringe Benefit tax	22	-
Deferred tax	(39)	(7)
	2845	2647
Dividend	606	687
Provision for Dividend tax	85	90
Transfer to General Reserve	203	1050
Balance carried forward to next year	1951	820

2. OPERATIONS

While the two-wheeler industry grew by 15% over the previous year, intense competitive pressures were witnessed amongst the vehicle makers for building volumes and market share. Through active encouragement of vehicle makers, new supply sources have emerged catering to the needs of vehicle manufacturers and promoting intense competitive pressures in our line of business. Extra-ordinary increases in the prices of input materials such as copper, aluminium and steel

have taken place whose impact could not be fully recouped through price increases from customers. However, aggressive cost reduction strategies, rise in other income and lower incidence of income-tax due to the growth of our Pondicherry unit have helped the company to show better profit after tax despite marginally lower sales.

Your Company had developed new products for vehicles being introduced next year by Yamaha, HMSI, Hero Honda and TVS Motor. This, together with the steps taken for introduction of TQM across the board in the company, should hopefully bring about an improvement in operational performance in the ensuing year.

Your Company continues to develop products for its customer in Malaysia and has also received enquiries from potential overseas customers in Italy, Slovenia and Turkey which hopefully should translate into good long term business.

Your Directors are pleased to state that the Department of Scientific and Industrial Research have recognized the in-house R&D and granted approval for the weighted income tax deduction of 150% for both the capital and revenue on this account.

Following the decision by one of Your Company's major customers to set up a factory near Jakarta, Indonesia for manufacture of two wheelers to cater to their potential customers in ASEAN region, Your Company has set up a subsidiary there called "PT Automotive Systems Indonesia".

Your Company continues to maintain its focus on training and development of employees. A wage settlement covering a four-year period from 1st Apr'05 to 31st Mar'09 was concluded at the Hosur unit. Industrial relations in all the three plants of your Company continue to be cordial.

3. DIVIDEND

Your Directors recommend a dividend for the year of Rs.7.50 per share. The dividend will absorb a sum of Rs.605.93 lacs besides an outgo on additional dividend distribution tax of Rs.84.98 lacs.

INDIA NIPPON ELECTRICALS LIMITED**4. 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.

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

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

6. PARTICULARS OF EMPLOYEES

Particulars of employees as per Section 217(2A) of the Companies Act, 1956 read with Companies [Particulars of Employees] Rules 1975 are given in Annexure II to Directors' Report to the Shareholders.

7. CORPORATE GOVERNANCE

Clause 49 of Listing Agreement had undergone a significant change from 1st January 2006. The report on corporate governance prescribed by this amendment to the Listing Agreement appears as part of this report in Annexure-III.

8. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions 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, 2006 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, 2006 on a 'going concern' basis.

9. DIRECTORS

Shri K R Anandakumaran Nair is retiring by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Shri R Vijayaraghavan who was appointed as a Director of Your Company in the casual vacancy caused by the resignation of Shri Gopal Srinivasan vacates his office at the ensuing Annual General Meeting and offers himself 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. GENERAL

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

Your Directors also acknowledge the continued support received from Lucas Indian Service Ltd, Chennai, Kokusan Denki Co Ltd., Japan and also wish to thank the Governments of Tamil Nadu, Haryana and Pondicherry as well as 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
7th June 2006

T K BALAJI
Chairman



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 :

- i. Automatic Power Transfer System (ATS) installed between Mains and Genset for efficient transfer as also to prevent overlap losses.

- ii. Compressed Air energy saver installed.

b) Future Plans for energy Conservation.

Progressive replacement of 250W Mercury Vapour and Sodium Vapour lamps by 150W Metal Halide lamps for street and shop floor lighting.

2. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION :

- i. To meet customer demand on cost and quality, your Company offered many VAVE products and systems.
- ii. Development work to cater to future needs on fuel injection has been progressed with collaborator's active participation with a view to bring down cost of the system.

- iii. Recognising the work done by the in-house R&D, Department of Scientific & Industrial Research, Government of India has given approval for 150% weighted deduction of capital and revenue expenses under Income Tax Act.

Expenditure on R& D :

	Rs. Lacs
Capital	: 18.66
Revenue	: 110.97
	<u>: 129.63</u>
% of net turnover	: 0.90 %

3. FOREIGN EXCHANGE OUTGO AND EARNINGS :

The foreign exchange outgo and earnings for the Company under review were Rs.1240 lacs and Rs.30.57 lacs respectively.

For and on behalf of the Board of Directors

Chennai
7th June 2006

T K BALAJI
Chairman