

Annual Report 2008 - 09

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**INDO TECH
TRANSFORMERS LIMITED**

**Annual General Meeting on
Friday, the 4th September 2009
At Pleasant Days (Resort),
At 12.00 Noon.**

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Board of Directors

Jorge Lozano
Chairman

Jorge Sepulveda
Director

Kishore Jayaraman
Director

Arun Bhalla
Director

Arun Srivastava
Director

M. S. Srinivasan
Director

Company Secretary

V. Balasubramanian

Auditors

G. Balu Associates

Registered Office

DP:36 SIDCO Industrial Estate
Thirumazhisai
Chennai 602 107

Works

- 1) Survey No.153-210
Illuppapattu Village
Near Rajakulam
KM.64 Chennai Bangalore Highway
Kancheepuram District
Tamil Nadu
- 2) DP:14-19 SIDCO Industrial
Estate, Thirumazhisai
Chennai 602 107
- 3) DP:36 SIDCO Industrial
Estate, Thirumazhisai
Chennai 602 107
- 4) VII/222, Koyyamarakkad
Kanjikode, Palakkad 678 621

Registrars

Link Intime India Private Limited
C-13 Pannalal Silk Mills Compound
LBS Marg, Bhandup (West)
Mumbai - 400 078.
Telephone : 022-2596 3838 / 2594 6970
Fax : 022-2594 6969 / 2596 2691
E-mail : rnt.helpdesk@linkintime.co.in

Bankers

Bank of Baroda
Citibank N. A.
Indian Bank
Standard Chartered Bank
State Bank of India
The Hongkong & Shanghai Banking Corporation
HDFC Bank

DIRECTORS' REPORT

We have pleasure in presenting the 17th Annual Report on the business and operations of your Company together with the Audited Statement of Accounts and the Auditor's Report for the financial year ended 31st March, 2009.

FINANCIAL RESULTS

(Rupees in Lakhs)

	Financial Year ended March 31, 2009	Financial Year ended March 31, 2008
INCOME		
Gross Sales & Other Income	24157.17	23152.95
Gross Profit before depreciation & tax	6312.37	5986.06
Depreciation	391.71	174.44
Profit before tax	5920.66	5811.62
Provision for tax inc. deferred tax and FBT	2023.58	1909.80
Profit after tax	3897.08	3901.82
Income tax of earlier year	0.28	3.38
Balance of profit of earlier years	5960.79	3307.84
Balance available for appropriation	9857.59	7206.28
APPROPRIATIONS		
General Reserve	500.00	500.00
Dividend	1316.91	637.20
Tax on Dividend	223.80	108.29
Balance carried to Balance Sheet	7816.87	5960.79

DIVIDEND

During the year ended 2008-09 your Company paid a First Interim Dividend of 85% and a Second Interim Dividend of 39%. The Directors do not recommend any final dividend for the year 2008-09 and would request that the two interim dividends be confirmed as the final dividend.

EXPLANATION TO QUALIFICATIONS IN THE AUDITOR'S REPORT

i. Note No.06 (Schedule 18.B)

The confirmation of balances due from the various debtors were sent. However, as the major customers are State Electricity Boards and Government Undertakings, it takes time to receive such confirmations. However, as and when information is received invoice-wise, it is reconciled and appropriate entries in the books are passed.

ii. Note No.04 (Schedule 18.B)

- a) A low tension electric line of Tamil Nadu Electricity Board (TNEB) was passing through 0.132 acres of land in Plot No.19. This was shifted to Plot No. 36 at a cost of Rs.1.40 lakhs by the Company with intimation to Small Industries Development Corporation Limited (SIDCO). The Company is now in the process of getting this land registered in its name.
- b) Application for registration of Company's land at DP:36, Sidco Industrial Estate has been made and the Company is hopeful of getting a favourable response shortly.
- c) The note is self-explanatory. The Company is following up with the District Industries Centre, Palakkad.
- d) The note is self-explanatory. The Company is in the process of obtaining quotes and disposing the structure and machineries on an "as is where is basis".

iii. Note No. 07 (Schedule 18.B)

The note is self-explanatory.

iv. Section 215 of the Companies Act, 1956, inter-alia, requires that the Balance Sheet and the Profit & Loss Account of a company shall be signed by its secretary, if any, and by not less than two directors of the Company, one of whom shall be the Managing Director where there is one. However, the erstwhile Managing Director of the Company, Mr. P. E. Subramaniam, due to his illness and hospitalization, was not able to sign the Balance Sheet, Profit & Loss Account, Cash Flow Statement etc. The Company has taken an opinion in this regard that non-signing of the Balance Sheet, Profit & Loss Account etc. in this instance would not constitute a violation of the provisions of Section 215 of the Companies Act, 1956.

FINANCIAL HIGHLIGHTS

Rs. in Lacs

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross Sales & Other Income	24157	23153	19115	11233	8175
Net Sales & Other Income	21100	19345	15859	9352	6803
Earnings before Depreciation, Interest and Tax (EBDIT)	6593	6123	4225	1809	1230
Depreciation	392	174	114	85	86
Profit After Tax	3897	3902	2621	1106	797
Equity Dividend %	124	60	45	20	20
Dividend Payout	1317	637	478	212	56
Equity Share Capital	1062	1062	1062	1062	282
Reserves and Surplus	13574	11218	8065	6075	2111
Net Worth	14636	12280	9127	7137	2393
Gross Fixed Assets	9501	9219	4574	2041	1677
Net Fixed Assets	8212	8313	3826	1344	1063
Total Assets	16632	14155	9971	7501	2786

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KEY INDICATORS

	2008-09	2007-08	2006-07	2005-06	2004-05
Earnings per Share - Rs.	36.70	36.71	24.00	14.34	28.29
Turnover per share - Rs.	227.47	218.00	179.99	105.77	290.21
Book value per share - Rs.	137.81	114.76	85.07	66.33	84.90
Debt : Equity Ratio	0.10:1	0.12:1	0.07:1	0.03:1	0.09:1
EBDIT / Gross Turnover	27%	26%	22%	16%	15%
Net Profit Margin	18%	20%	17%	12%	12%
RONW	27%	32%	29%	15%	33%
ROCE	35%	34%	32%	17%	31%

OPERATIONS AND PERFORMANCE

Your Company has performed reasonably well in spite of the current global slowdown and recession.

Your Company's total revenues for the year 2008-09 were Rs.24157.17 lakhs (Rs.23152.95 lakhs for the previous year ended March 31, 2008). The Net Profit after provision for taxation for the year ended March 31, 2009 was Rs.3897.08 lakhs (Rs.3901.82 lakhs for the previous year ended March 31, 2008). The earnings per share for the year under review was Rs.36.70 (Rs.36.71 for the previous year ended March 31, 2008).

Your Company's net worth continues to be strong and stood at Rs.14635.93 lakhs as on March 31, 2009 (Rs.12279.85 lakhs in March 31, 2008), reflecting the intrinsic strength of the Company.

LARGE POWER TRANSFORMER PLANT AT KANCHEEPURAM

The large power transformer plant at Kancheepuram is a world class state-of-the-art plant spread over 31 acres of land situated on NH-4 and the total built up area exceeds 110000 sq. feet. It has an installed capacity of 4000 MVA per annum. The plant has vapour phase drying ovens instead of conventional drying, using steam or electricity. The advantage is saving in drying time and faster, efficient and thorough drying and which enhances productivity and quality.

Winding machines, both vertical and horizontal with variable drives are used which enables the machines to start at zero or minimum speed, avoiding jerks to the coil. Braking is also smooth. This ensures error free coil winding on the machines and also savings in energy consumed by the winding machines. The entire winding area is totally dust free with positive pressure.

The plant has a number of EOT cranes with the single largest crane of 200T capacity in addition to a number of jib cranes for the work stations.

The plant has epoxy flooring which helps in maintaining a dust free atmosphere and any oil slippage can be wiped clean and does not affect the flooring.

Metal halide lamps are used for better lighting efficiency / economy.

BUSINESS OPERATIONS OVERVIEW AND OUTLOOK

The Government has set a target of adding 90,000 MW by the end of the 11th Plan. Even at 62% achievement of this target, the capacity addition should be approx. 56,000 MW.

It is estimated that for every MW of generation capacity added, it would generate 10 MVA demand for transformers across generation, transmission and distribution. Hence, the 11th Plan should create an additional demand of 560,000 MVA of transformers.

A transformer has a shelf life of around 25 to 30 years. Thus transformers that were installed in 1980-1985 are likely to be replaced in the near future, which implies a replacement demand of 25,000 MVA per annum.

Thus the demand for transformers is pegged at 1,200,000 MVA per annum.

Investments in energy sector are likely to continue with the government targeting an addition of 90,000 MW by 2012. Further, power reforms in the form of R-APDRP and Rural Electrification should result in additional demand for distribution transformers.

Your Company continues to get regular orders from State Electricity Boards, other Public Utilities, leading Turnkey Electrical Contractors as well as a range of Industrial Customers. The Company is also optimistic of securing a good volume of export orders. The above will result in extending the Customer base of the Company and will enable the Company to achieve its projected growth in the years to come.

BUYOUT BY PROLEC-GE INTERNACIONAL, S. DE R.L. DE C.V.

Shareholders are aware that the entire equity stake of the existing promoters amounting to 57,71,625 equity shares (54.35% of the paid up equity share capital) has been acquired by Prolec-GE Internacional, S. De R.L. De C.V. [a joint venture between General Electric Company, USA and Xignux, Mexico]. Prolec-GE Internacional, S. De R.L. De C.V. has also acquired a 20% equity stake from the market in an Open Offer pursuant to SEBI (Securities & Exchange Board of India) Regulations. Hence, the total holding of Prolec-GE in the equity capital of the Company is 78,95,625 (74.35%) equity shares.

The Prolec-GE management has taken over the operations of the Company from 18th May, 2009.

DIRECTORS

Consequent to the buyout by Prolec-GE, Mr. Jorge Lozano, Mr. Jorge Sepulveda and Mr. Kishore Jayaraman were appointed as Additional Directors of the Company by circular resolution on 18th May, 2009. Mr. P. E. Subramaniam, Mr. P. S. Jagdish, Mr. P. S. Shekar, Mr. P. Velayudhan Pillai and Mr. K. Kannan have submitted their resignation from the Board of Directors which has since been accepted. Mr. A. P. Muthuswami, an Independent Director on the Board and a Member of the Audit Committee suddenly expired on 25th January, 2009. The Board of Directors would like to place on record the valuable contribution made by all the erstwhile directors during their tenure.

Subsequently, Mr. Arun Bhalla and Mr. Arun Srivatsava and Mr. M. S. Srinivasan were appointed as Independent Directors of the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, and based on the certificate/s given by the erstwhile wholetime directors, your Directors confirm that;

- 1) that in the preparation of the annual accounts for the financial year ended 31st March, 2009 the applicable accounting standards had been followed along with proper explanation relating to material departures;
- 2) that the Directors had selected such accounting policies and applied them consistently and made judgments 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 2008-09 and of the Profit & Loss Account of the Company for the year under review;
- 3) 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 preventing and detecting fraud and other irregularities;
- 4) that the Directors had prepared the accounts for the financial year ended 31st March 2009 on a 'going concern basis'.

Notwithstanding the above, the new management is reviewing the operations and functioning of the Company to ensure that it is in accordance and consistent with its stated historical performance/records and will take steps to correct the operations, if required, to be consistent with such stated records and information.

CORPORATE GOVERNANCE

Your Company continues to be committed to good corporate governance aligned with the best corporate practices.

A separate Report on Corporate Governance along with Auditor's Certificate on Compliance with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges is provided as a part of this Annual Report, besides the Management Discussion and Analysis.

The Auditor's Certificate on Corporate Governance contains a qualification to the effect that the strength of the Board had reduced to 5 directors with only two independent directors and in the Audit Committee Meeting held on 27th January, 2009, the quorum of two independent directors could not be maintained. Your directors would like to apprise you that Mr. A. P. Muthuswami, an Independent Director in the erstwhile Board and Audit Committee Member, suddenly expired on 25th January, 2009 and the erstwhile Board of Directors were unable to immediately co-opt an Independent Director who could have also functioned as a Member of the Audit Committee.

AUDITORS

The Auditors of your Company, M/s. G. Balu Associates, Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office, if re-appointed. The Company has received a letter from them to the effect 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 appointment for your approval.

FIXED DEPOSITS

Your Company has not accepted any deposits and, as such, no amount of principal or interest was outstanding on the date of the Balance Sheet.

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

The information as prescribed under Section 217 (1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is given in a separate annexure [Annexure "I"], which forms a part of this Report.

PARTICULARS OF EMPLOYEES

Particulars of employees who are in receipt of remuneration prescribed under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given in Annexure II.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of co-operation and support received from employees at all levels, banks, customers, suppliers, registrars, shareholders, and all other stake holders for the continued growth and prosperity of your Company. Your Directors look forward to the continued support of these partners in progress.

For and on behalf of the Board of Directors
INDO TECH TRANSFORMERS LIMITED

Place: Chennai
Date : 31st July, 2009

Arun Bhalla
Director

Kishore Jayaraman
Director

ANNEXURE I TO DIRECTORS' REPORT

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

A. CONSERVATION OF ENERGY

Energy Conservation :

Your Company is not a power intensive industry and hence the scope for conservation of energy is not much. However the following energy saving measures has been carried out.

- i. The Company has been regularly striving to conserve use of electrical energy by implementation of energy audit and energy conservation measures. Process procedures have been optimized to reduce energy consumption per unit/ rupee of production.
- ii. The fluorescent lights at the Plant have been fitted with electronic ballast for higher efficiency and conservation of energy.
- iii. Lighting survey was carried out and some lighting points reduced.
- iv. The new Distribution Plant at Thirumazhisai has been designed in such a way that during normal day shifts, the natural lighting is sufficient for all operations thereby saving on artificial lighting costs. The efficiencies of the new Air Drying Ovens, Paint Booth and Variable Drives fitted with all the winding machines installed at the new D.T plant will ensure reduction in energy costs to a great extent.
- v. The Open Ventilated Dry Type (OVDT) plant has also been set up on similar lines as above.
- vi. The large Power Transformer Plant at Kancheepuram has also been set up on similar lines as above.
- vii. Sodium Vapour lamps in Thirumazhisai Power Transformer Plant has been entirely replaced with Metal Halide lamps for better efficiency/economy.
- viii. Large Power Transformer Plant at Kancheepuram

Vapour Phase Drying is an advancement on the drying method for transformer windings/coils. Instead of conventional drying, using steam or electricity, Shellsol or equivalent is used as a solvent in vapour phase drying. There is significant saving in drying time thus increasing productivity and quality.

Thermic fluid is used as the medium of heating and this thermic fluid is heated in boilers using furnace oil. When compared to conventional electric heating, this method of heating results in significant saving in the running cost.

Winding machines with variable drives are used which enables the machines to start at zero or minimum speed, avoiding jerks to the coil. Braking is also smooth. This ensures error free coil winding on the machines and also savings in energy consumed by the machines.

The 1600 KVA energy efficient transformer installed at the Kancheepuram Power transformer Plant has laser scribed core to minimize core loss and increase efficiency.

B. TECHNOLOGY ABSORPTION

Research & Development :

1. Specific areas in which R&D is carried out by the Company
In the OVDT plant, the consumption of varnish has been studied and accordingly the Vacuum Pressure Impregnation (VPI) Plant has been designed such that a fine coat over the coils is obtained and consumption of varnish is reduced.
2. Benefits derived as a result of the above R&D :
The development and introduction of various components have contributed to reduction in production cost and improvement in quality. As a result, the Company has good scope in new market entry, cost reduction, better product performance and increased competitive ability and broader product profile.
3. Future plan of action:
All the above stated activities will be further accelerated and amplified to ensure conformance and further developments.
Three new State of the art plants to manufacture Large Power Transformers at Kancheepuram; Distribution Transformers and Open Ventilated Dry Type Transformers at Thirumazhisai have been established and commercial production has commenced. Modern plant and machinery have been installed such as winding machines and vapour phase drying ovens which will enable faster processing of transformers with less energy consumption.

C. IMPORTED TECHNOLOGY

It is expected that with Prolec-GE acquiring management control of the Company, the Company would benefit from the technological expertise of Prolec-GE.

D. FOREIGN EXCHANGE EARNINGS AND OUTGO

The foreign exchange earnings of the Company during the year under review was Rs.1975.01 lakhs and outgo was Rs.1121.86 lakhs.

Annexure II to Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and forming Part of the Directors' Report for the year ended 31st March, 2009

Name of the Employee	Designation	Age	Qualifications	Experience	Date of Joining	Remuneration pa. (Rs.)	Commission (Rs.)	Previous Employments
P. E. Subramaniam	Chairman & Managing Director	70 Yrs	Diploma in Electrical Engg.	48	16.01.92	17,52,240	61,61,904	Partner Indo Tech Electric Company
P. S. Jagdish	Executive Director	41 Yrs	Industrial Production Engineer	18	16.01.92	11,32,545	61,61,904	Partner Indo Tech Electric Company
P. S. Shekar	Director Operations	37 Yrs	B. Com	14	22.08.94	10,65,924	61,61,904	None

Notes :

1. "Remuneration" includes salary, allowances, commission and taxable value of perquisites.
2. The above appointments are contractual.
3. Mr. P. E. Subramaniam, Mr. P. S. Jagdish and Mr. P. S. Shekar are related to each other.

CORPORATE GOVERNANCE REPORT

Company's Philosophy on Corporate Governance:

The Company's philosophy is to aim at the highest levels of quality management through transparency and commitment to all the stakeholders viz. its shareholders, employees, Government, lenders and the promoters. Management ensures that its day to day business transactions are conducted in an open and honest manner.

Board of Directors:

The Board of Directors provides the strategic direction and thrust to the operations of the Company. The Board has a non-wholetime Chairman and five other Directors. Out of these, three members are Independent Directors.

Consequent to the takeover of the Company by Prolec-GE Internacional, S. De R.L. De C.V., Nuevo Leon, Mexico, all the erstwhile Directors viz. Mr. P. E. Subramaniam, Mr. P. S. Jagdish, Mr. P. S. Shekar, Mr. K. Kannan and Mr. P. Velayudhan Pillai resigned from the Board. Mr. A. P. Muthuswami, an Independent Director and member of the Audit Committee expired on 25th January, 2009.

The Board of Directors has since been reconstituted with the appointment of Mr. Jorge Lozano, Mr. Jorge Sepulveda, Mr. Kishore Jayaraman, Mr. Arun Bhalla, Mr. Arun Srivastava and Mr. M. S. Srinivasan as Directors. Mr. Jorge Lozano, Mr. Jorge Sepulveda and Mr. Kishore Jayaraman are non wholetime directors. Mr. Arun Bhalla, Mr. Arun Srivastava and Mr. M. S. Srinivasan are independent directors.

Except Mr. Jorge Lozano and Mr. Jorge Sepulveda, all other Directors are liable to retire by rotation.

None of the Directors are related to each other.

Board Procedures:

The Company Secretary prepares the agenda in consultation with the Chairman of the Board of Directors and the Chairman of the various committees. The agenda for the meetings of the Board and its Committees, together with the appropriate supporting documents, are circulated well in advance of the meetings. The meetings are generally held in Chennai.

Attendance at Board Meetings, last Annual General Meeting (AGM) and number of other Directorships and Chairmanships / Memberships of Committees of each of the erstwhile Directors in various companies are stated below:

During the year under review, the Board of Directors met 8 times on 30th May, 2008, 30th July, 2008, 13th Oct, 2008, 27th Nov, 2008, 19th Dec, 2008, 12th Jan, 2009, 31st Jan, 2009 and 26th Feb, 2009

Name of Director	Type of Director	Board Meetings Attended	AGM Attended	No. of Committee Memberships Held	No. of other Directorships Held
P.E. Subramaniam Chairman & Managing Director	Promoter Director	6	No	Nil	1
P.S. Jagdish Executive Director	Promoter Director	8	Yes	Nil	1
P.S. Shekar Director-Operations	Promoter Director	7	Yes	Nil	1
K. Kannan Director	Independent Director	8	Yes	6 (including 2 as chairman)	6
A.P. Muthuswami Director	Independent Director	4	Yes	Nil	Nil
P. Velayudhan Pillai Director	Independent Director	2	No	Nil	Nil

*The Directorships held by Directors as mentioned above, do not include Alternate Directorships, Directorships of Foreign Companies, Section 25 Companies and Private Limited Companies.

*In accordance with Clause 49, Memberships/Chairmanships of only the Audit and Shareholders'/Investors' Grievance Committees of all Public Limited Companies [excluding Indo Tech Transformers Limited] have been considered.

Brief Resume of Director seeking re-appointment:

A brief resume of Directors seeking re-appointment at the Seventeenth Annual General Meeting is given in Annexure "A".