



From fans to electrical solutions

Annual report, 2005-06

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



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Corporate Information

Board of Directors

S.K. Khaitan, *Chairman*

Sunil K. Khaitan, *Vice-Chairman & Managing Director*

Sajjan Dabriwal, *Dy. Managing Director*

Jyoti P. Tibrewala

O. Swaminatha Reddy

A.K. Kalaria

R.A. Lohariwala, *Executive Director*

P.S. Prabhakar, *Executive Director*

G.R. Choudhary, *Finance Director & Secretary*

Auditors

M/s. V.S. Rao & Co.

Chartered Accountants

M/s. G.P. Agrawal & Co.

Chartered Accountants

Bankers

State Bank of Travancore

State Bank of Patiala

State Bank of India

Industrial Development Bank of India Ltd.

Depository Registrar & Share transfer agent

M/s. CIL Securities Ltd.

214, Raghava Ratna Towers

Chirag Ali Lane

Hyderabad – 500 001

Telephone: (040) 23202465/ 23203155

Fax: (040) 25561267/ 3203155

Branches

Ahmedabad, Bangalore, Chandigarh, Chennai, Cuttack,
Faridabad, Guwahati, Hyderabad, Indore, Jaipur, Kanpur,
Kochi, Kolkata, Mumbai, New Delhi and Patna

Corporate Office

'Everest' 20th Floor

46C, J.L. Nehru Road

Kolkata – 700 071

Telephone: (033) 22888391

Registered Office

A-13, Co-operative Industrial Estate

Balanagar, Hyderabad – 500 037

Telephone: (040) 23770640

Fax: (040) 23770646

Kolkata Works

P-10, Transport Depot Road

Kolkata – 700 088

Hyderabad Works

129, Sri Venkateswara Co-op. Industrial Estate

IDA, Bollaram – 502 320 Medak Dist. (A.P.)

Faridabad Works

Plot No. 14, Sector – 6

Faridabad – 121 006 (Haryana)

Paonta Sahib Works

Unit: Shree Shyam Industries

1, Gondpur Industrial Area

Dist.: Sirmor, Paonta Sahib (H.P.)

Directors' Report

Including Management Discussion and Analysis report

To The Members

Your Directors have pleasure in presenting their 30th Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2006.

Financial Results

	2005-2006	2004-2005
	<i>(Rs in lacs)</i>	
Sales	20358.63	12476.61
Gross Profit for the year was	1001.97	410.08
From which is deducted		
a) Depreciation*	154.77	124.01
b) Provision for Income-tax		
Current Tax	130.00	30.00
Deferred Tax	(5.96)	4.39
Fringe Benefit Tax	24.42	—
	303.23	158.40
Leaving a balance of	698.74	251.68
Income-tax for earlier years	—	(6.87)
To which is added profit brought forward from previous year	287.06	257.25
Making an available surplus of	985.80	502.06
Which is appropriated as under		
a) Transfer to General Reserve	300.00	116.48
b) Proposed Dividend	129.60	86.40
c) Dividend Tax	18.18	12.12
Leaving a balance to be carried forward	538.02	287.06
Earnings Per Share (in Rs.)	9.70	3.40
Cash Earnings Per Share (in Rs.)	11.85	5.12

(*) Net of excess depreciation written back Rs. Nil Previous year Rs.4.76 lakhs)

Dividend

The Directors have recommended a dividend of 18% (Previous year 12%) for the year 2005-06. The Dividend if approved by you, will absorb a sum of Rs.147.78 lacs including dividend tax against Rs. 98.52 lacs in the previous year.

Financial Review**Sales**

Sale for the year ended 31st March, 2006 zoomed to Rs.203.59 Crores, compared to Rs.124.77 Crores registering a growth of 63%. Significant growth in fan business combined with expanded business of lighting products and launching of new

products such as Miniature Circuit Breakers, wires & cables contributed to achieve remarkable increase in sales.

Operating Profit for the year increased by 135% to Rs.13.17 Crores against Rs.5.60 crores in the previous year.

Other income

Other income consists of, export incentives, cash discount, claims received etc.

Financial Expenses

Net Financial expenses increased to Rs.3.15 crores from Rs.1.50 crores largely on account of steep hike in LIBOR and interest rates.

Depreciation

Depreciation was at Rs.1.55 crores

compared to Rs. 1.24 crores in the previous year.

Profit

Net profit for the year recorded a sharp rise at Rs.6.99 Crores compared to Rs.:2.52 crores for the previous year.

This increase has been possible due to increased fans business and significant increase in the business of lighting products.

Earning per Share

Earnings Per Share (EPS) stood at Rs.9.70 compared to EPS of Rs.3.40 in the previous year. Similarly Cash Earning Per Share stood at Rs.11.85 as against Rs. 5.12 in the previous year.

Cash Flow Analysis

(Rs. in lacs)

Source of cash	2005-06	2004-05
Cash from operations	1277.99	562.77
Increase in Borrowings	1416.52	227.65
Total	2694.51	790.42
Use of Cash		
Net capital expenditure	284.61	75.32
Inter Corporate Deposits	22.74	12.49
Interest paid	210.85	75.68
Dividend Paid	86.40	86.40
Tax paid	112.50	95.44
Increase/(Decrease) in Cash & Cash Equivalents	378.64	7.49
Increase in Working Capital	1598.77	437.60
Total	2694.51	790.42

Industrial Structure

Fan Industry can basically be classified as organized and unorganized. Organised fan Industry is growing about 10% year on year.

Human Resources

The Company believes that its employees are a vital resource in the current business environment. The Company is enjoying good and congenial industrial relations at all of its plants. As on 31st March, 2006, the total permanent employees were 730

Safety Environment And Pollution Control

The Company continuously works on high safety standards and a clean environment free from pollution. The manufacturing process does not generate effluents.

ISO 9001

The Plant of your Company located at Hyderabad is presently ISO 9001 certified.

Current Outlook

The outlook for the current year is extremely good with growth in turnover of all the products of the Company. The new products launched by the Company are well received at market place. The Company intends to introduce many more products in a phased manner. The Company is very optimistic in achieving higher growth levels in all its existing as well as proposed products and hopes to report much improved working results for the current year.

Risks & Concerns

Steep rise in input costs although worrisome, the company is realigning its products by re-engineering, and

mitigating the impact. No threat is witnessed from Imports.

Internal Control Systems And Their Adequacy

The Company remains committed to maintain internal control system and procedures to provide reasonable assurances for efficient conduct of business and security of its assets. The Company has an elaborate budgetary control system and actual performance is consistently monitored by the Management. The Company has a well defined organizational structure, authority levels and internal guidelines and rules.

Fixed Deposits

The Company did not accept/renew any Fixed Deposit during the year under review and there were no outstanding Deposits.

Directorate

Sri Sunil K.Khaitan, Sri Jyoti P.Tibrewala and Sri O.Swaminatha Reddy Directors of the Company retire by rotation and being eligible offers themselves for reappointment.

Corporate Governance Report

A separate report on Corporate Governance is furnished as a part of the Annual Report and the certificate from the Company's Auditors regarding compliance with the said code is annexed to the said Report.

Cost Auditors

Pursuant to provisions of Section 233(B) of the Companies Act, 1956 necessary application was submitted to the Department of Company Affairs for the appointment of M/s.Prasad & Company, Cost Accountants as Cost Auditors to audit the cost accounts maintained by the Company for the

year ending on 31st March, 2006.

Auditors

M/s.V.S.Rao & Co., Chartered Accountants and M/s.G.P.Agrawal & Co., Chartered Accountants, Joint Auditors of the Company retire at the ensuing Annual General meeting and are eligible for re-appointment.

Directors' Responsibility Statement

Pursuant to Sub Section 2 (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that:

- i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- ii) 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 and of the profit of the Company for that period.
- iii) 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 safe guarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- iv) the Directors had prepared the annual accounts on a going concern basis.

Disclosures

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

1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is set out as under:

A. Conservation of Energy : Company's energy requirement is not large and the power consumption is in conformity with the industry norms. Hence, no special measures were taken.

B. Technology Absorption

1. Specific areas in which R&D carried out by the Company : Development of new models/products/processes, improvement in the quality and productivity of the existing products.

2. Benefits derived as a result of the above R & D : Improvement in quality and productivity of the products.

3. Future Plan of Action : To design and develop new as well as low cost models of fans, high speed fans and power efficient motors.

4. Expenditure on R&D

a) Capital : Nil

b) Recurring : Rs. 16.25 Lacs

c) Total : Rs. 16.25 Lacs

d) Total R & D Expenditure as a percentage of Total Turnover : 0.08%

C. Foreign Exchange Earning and Outgo

1. Activities relating to Exports, initiatives taken to increase exports, development of new export markets for products and services and export plans. : The Company export its products to various Middle East Countries, Nigeria, Ghana, Tanzania, Sudan, Jordan, Egypt, Kenya, Singapore, Maldives, Uganda, Iraq, Nepal, Bangladesh, Sri Lanka, Myanmar, etc. Efforts are on for increasing exports to the existing customers and for exporting to new countries.

2. Total Exchange used and earned : Used – Rs.1350.40 Lacs

Earned – Rs. 530.70 Lacs

Personnel

Relations with the employees remained cordial and harmonious. Your Directors wish to place on record their sincere appreciation for the dedicated services rendered by the employees of the Company at all levels. Information, as required under section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended are set out as under:

Employed throughout the Financial Year:

Name : Sri Sunil K.Khaitan

Age & Experience : 46 Years & 27 years

Designation & Nature of Duty : Vice Chairman & Managing Director

Qualification : B.Com (Hons), MBA

Remuneration : Rs.3,422,820

Date of Joining : 01.11.1998

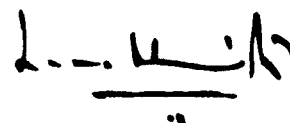
Particulars of last employment : Vice-Chairman & Managing Director of Erstwhile Khaitan Electricals Limited

Note: Sri Sunil K.Khaitan is related to Sri S.K.Khaitan

The Directors record their appreciation for the co-operation and support extended to the Company by its Bankers, Financial Institutions, Licensors, Wholesalers, Customers, Suppliers and Members.

Kolkata
7th July, 2006

On Behalf of the Board



S.K.Khaitan
Chairman

Corporate Governance Report

1. Company's Philosophy on Code of Governance:

Your Company believes good corporate governance contemplates that corporate actions balance the interests of all stakeholders and satisfy the tests of accountability, transparency and fair play.

2. Board of Directors:

The strength of your Company's Board is ten directors comprising five non-

executive directors, out of whom four are independent directors, viz., Sri O.Swaminatha Reddy, Sri M.G.Todi, Sri Ajay Kumar Kajaria and Sri Jyoti P. Tibrewala and Sri. S.K.Khaitan, non-executive Chairman of the Board. Five executive directors include Sri Sunil K.Khaitan, Vice Chairman & Managing Director, Sri Sajjan Dabriwal, Dy.Managing Director, Sri R.A.Lohariwala, Executive Director, Sri G.R.Choudhary, Finance Director &

Secretary and Sri P.S.Prabhakar, Executive Director.

Eight Board meetings were held during the period from 1st April, 2005 to March 31, 2006 on the following dates:

May 17, 2005; June 28, 2005; July 30, 2005; October 29, 2005; December 31, 2005; January 30, 2006; February 22nd, 2006; March 28, 2006.

The attendance at Board Meetings and at the last Annual General Meeting and the No. of other directorships and committee memberships/ chairmanships of directors is given below:

Name of Directors	No. of Board Meetings Attended	Attendance at Last AGM (Yes/No)	Number of Directorships in other Public Limited companies	Committee Memberships (excluding Khaitan Electricals Ltd.)
Sri S.K.Khaitan	2	No	6	5
Sri O.Swaminatha Reddy	6	Yes	11	6
Sri M.G.Todi	2	No	6	Nil
Sri A.K.Kajaria	2	No	4	Nil
Sri Jyoti P.Tibrewala	5	Yes	3	Nil
Sri Sunil K.Khaitan	3	Yes	2	Nil
Sri Sajjan Dabriwal	7	Yes	2	Nil
Sri R.A.Lohariwala	—	No	1	Nil
Sri G.R.Choudhary	2	No	2	Nil
Sri P.S.Prabhakar	7	Yes	Nil	Nil

3. Disclosure Regarding Appointment Or Reappointment Of Directors:

Given below are the abbreviated resumes of the Directors of Khaitan Electricals Ltd., for re-appointment.

■ Sri Sunil Khaitan (46 years) is the Vice-Chairman and Managing Director of the Company. He is a Post

Graduate in MBA having 27 years experience in the Fan Industry, He is associated with the Company for over two and a half decades after joining the Board of the Company in January, 1979. His other Directorships –Khaitan (India) Ltd., Khaitan Lefin Ltd. His Shareholdings in the Company 9,060 Nos.

■ Sri Jyoti P. Tibrewala (58 years) is a

Science graduate. His contribution to the growth of the Company is commendable. He was Managing Director of the Company for over two decades. He joined the Board of the Company in October, 1975. His other Directorships – Tibrewala Electronics Ltd., Gangeet Securities Ltd. and Vinit Investments Ltd. His Shareholding in the Company 30 Nos

■ Sri O. Swaminatha Reddy (75 years) is a Chartered Accountant and joined the Board in February, 1984. He is former Chairman of Andhra Bank, A.P.State Finance Corporation. His other Directorships – Sagar Cements Ltd., Swan Vacuum Systems Ltd., TCI Finance Ltd., Sujana Resorts Ltd., Sagar Power Ltd., VBC Industries Ltd., KCP Ltd., TCI Ltd., Surana Telecom Ltd., Bhagyanagar Metals Ltd., & HBC Flextech Ltd., Transport Corporation of India Ltd. His Shareholdings in the Company NIL.

4. Audit Committee:

Your Company has an Audit Committee comprising four Non executive and independent directors (viz., Sri O.Swaminatha Reddy, Sri Jyoti P. Tibrewala, Sri A.K.Kajaria and Sri M.G.Todi). Sri O.Swaminatha Reddy is the Chairman of the Committee. Sri P.S.Prabhakar, Executive Director is

the Secretary of the Committee.

The terms of reference of the Audit Committee cover the matters specified under Clause 49 of the Listing Agreement as well as in Section 292A of the Companies Act, 1956.

During the period under review, the Audit Committee held Four meetings on June 28th, 2005, July 30th, 2005, October 29th, 2005, January 30th, 2006.

The attendance at the Audit Committee Meetings is given below:

Name of Director	No. of Meetings Attended
Sri O.Swaminatha Reddy	3
Sri Jyoti P. Tibrewala	3
Sri A.K.Kajaria	1
Sri M.G.Todi	1

5(a). Directors Remuneration Committee

Directors Remuneration Committee was formed on 08th May, 2004. The Committee has been constituted to recommend/review the remuneration package of the Vice-Chairman /Whole-time Directors, during the year, the committee met once on 28.06.05 and all the members were present.

Members	Meeting Attended
Sri M.G.Todi (Chairman of the Committee)	1
Sri S.K.Khaitan	1
Sri A.K.Kajaria	1

Role of Committee

The Company's policy and specific remuneration packages for Whole -time Directors including pension rights and any compensation payment

5(b). Remuneration of Directors:

The details of remuneration of the Directors during the period under review are as follows:

Name of the Directors	Salary and Perquisites (Rs.)	Commission (Rs.)	Sitting fees (Rs.)	Total (Rs.)	Period of appointment & (Notice Period)
Sri S.K.Khaitan	–	–	9,000	9,000	–
Sri O.Swaminatha Reddy	–	–	27,000	27,000	–
Sri Jyoti P.Tibrewala	–	–	30,000	30,000	–
Sri M.G.Todi	–	–	12,000	12,000	–
Sri A.K.Kajaria	–	–	12,000	12,000	–
Sri Sunil K.Khaitan	15,47,820	18,75,000	–	34,22,880	01.11.03 to 31.10.08 (Three Months)
Sri Sajjan Dabriwal	8,64,447	4,50,000	–	13,14,447	20.07.04 to 19.09.07 (Three Months)
Sri R.A.Lohariwala	8,02,844	2,25,000	–	10,27,844	01.08.05 to 30.09.07 (Three Months)
Sri G.R.Choudhary	7,06,100	2,25,000	–	9,31,100	01.08.05 to 30.09.07 (Three Months)
Sri P.S.Prabhakar	7,49,770	2,25,000	–	9,74,770	27.08.04 to 26.09.07 (Three Months)

6. Share Transfer Committee and Shareholders'/Investors' Grievances Committee:

Your Company has a Share Transfer Committee comprising Sri S.K.Khaitan, Sri Sunil K.Khaitan, Sri Jyoti P. Tibrewala, Sri Sajjan Dabriwal, Sri G.R. Choudhary and Sri P.S. Prabhakar.

The Committee met 23 times during the period under review.

All shares received for transfer were registered and despatched within 30 days of receipt, if the documents were correct and valid in all respects.

Your Company received 758 Nos. of Transfers/Transmission applications during the year and the above applications duly transferred and despatched subsequently within the stipulated period and no transfers are pending as on date. Your Company received 2494 Nos. of D'mat applications during the year and the said D'mat applications were duly confirmed within the stipulated period

and no D'mat cases are pending as on date.

Your Company also has a Shareholders'/Investors' Grievance Committee to look into shareholders and investors' grievances.

The Committee met two times on October 29, 2005 and March 28, 2006 during the period under review

The Committee is Chaired by Sri Jyoti P.Tibrewala, a non-executive independent director. The other members of the Committee are Sri Sajjan Dabriwal, Deputy Managing Director and Sri P.S.Prabhakar, Executive Director. Sri P.S.Prabhakar, Executive Director is the Secretary to

the Committee. Sri P.S.Prabhakar is presently the Compliance Officer and the Secretary to both the Share Transfer Committee as well as the Shareholders'/Investors' Grievance Committee.

Your Company received 153 Nos. of complaints from Shareholders relating to non receipt of dividend, non receipt of Exchange Certificates, non receipt of Bonus Shares, non receipt of annual report, non receipt of shares sent for transfers, non receipt of D'mat credit etc., The complaints were duly attended to and there were no complaints pending for more than 30 days as on 31st March, 2006.

7. General Body Meeting:

AGM	Financial Year	Location	Date	Time
29th	2004-05	Federation of A.P. Chambers and Commerce of Industry, Hyderabad -500 004	15th September, 2005	11.00 a.m
28th	2003-04	A-13, Co.-op. Indl. Estate, Balanagar, Hyderabad - 500 037	6th November, 2004	11.00 a.m
27th	2002-03	A-13, Co-op. Indl. Estate, Balanagar, Hyderabad - 500 037	22nd September, 2003	11.00 a.m

Special Resolution transacted at the Last Three Annual General Meetings held on

15th September, 2005

No Special Resolution was passed at the 29th Annual General Meeting held on 15th September, 2005

06th November, 2004

Delisting of Company Equity Shares from Hyderabad Stock Exchange Ltd. and Calcutta Stock Exchange Association Ltd.

22nd September, 2003

Location of the Register and Index of Members and other Documents mentioned in Section 159 and 160 of the Companies Act. 1956 at the Company Depository Registrars &

Share Transfer Agents M/s CIL Securities Ltd., situated at 214, Raghava Ratna Towers Chirag Ali Lane, Abids, Hyderabad-500 001.

All resolutions as set out in respective notices were duly passed by the shareholders.

No. Resolution requiring postal ballot has been placed for shareholders approval at the ensuing Annual General Meeting.

8. Disclosures:

There were no transactions of material nature between the Company and its directors or Management and their relatives or promoters that may have a potential conflict with the interest of the Company. The Register of

Contracts containing transactions in which directors are interested is placed before the Board regularly.

There has been no instances of non-compliance by the Company on any matters related to capital markets and hence the question of penalties or strictures being imposed on the Company by the Stock Exchange or SEBI or Statutory authority does not arise.

9. Means of communications:

The annual, half-yearly and quarterly results are regularly submitted to Stock Exchanges in accordance with Listing Agreement and normally published in the Business Standard and Andhra Bhoomi.