

MRO-TEK LIMITED

ANNUAL REPORT

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Board of Directors

S. Narayanan	<i>Chairman & Managing Director</i>
H. Nandi	<i>Managing Director</i>
Raj B. Vattikuti	<i>Director</i>
R. Rajagopalan	<i>Director</i>
N. Sivaram	<i>Director</i>
A. Mohan Rao	<i>Director</i>
K. Subrahmaniam	<i>Alternate Director to Raj B. Vattikuti</i>
R. Ramaswamy	<i>Company Secretary</i>

REGISTERED OFFICE

"MRO House"
14, 1st 'D' Main Road
Ganganagar
Bangalore - 560032
Ph : (91)(80) 3332951

MANUFACTURING UNIT

29-B, Electronics City
Hosur Road, Bangalore - 561229
Ph : (91)(80) 8520544

MARKETING OFFICES

Lovlesh Court
Off Turner Road
CTS, No.F/1412
Bandra, Mumbai - 400 050
Ph : (91)(22) 6407311

Flat #711A

International Trade Tower
Nehruplace, New Delhi - 110 009
Ph : (91)(11) 6449164

BANKERS

State Bank of India
Canara Bank, Canbank Factors Ltd.

STATUTORY AUDITORS

Narayanan, Patil & Ramesh
Chartered Accountants
103, 1st Floor, Brigade Links
54/1, I Main Road
Seshadripuram
Bangalore - 560020
Ph : (91)(80) 3343014

INTERNAL AUDITORS

Tambakad and Goil
Chartered Accountants
3, Classique Mansion
6th Cross, HAL 2nd Stage
Off Airport Road
Bangalore - 560008
Ph : (91)(80) 5211427

REGISTRARS & SHARE TRANSFER AGENTS

Karvy Consultants Limited
TKN Complex, No.51/2
Vanivilas Road
Opp : National College
Basavanagudi
Bangalore - 560 004
Ph : (91)(80) 6621192

Notice

The Members

MRO-TEK LIMITED

NOTICE is hereby given that the Eighteenth Annual General Meeting of the Company will be held on Wednesday, 10 July 2002, at Hotel Woodlands, Chandini Hall, Rajaram Mohan Roy Road, Bangalore - 560 025, at 16.00 hours, to transact the following business.

1. To receive, consider and adopt the audited Balance Sheet as at 31 March 2002, and the Profit and Loss account for the year ended that date, along with the report of Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr. Raj B. Vattikuti, who retires by rotation and who, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. R. Rajagopalan, who retires by rotation and who, being eligible, offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED that Mr. N. Sivaram, be and is hereby appointed as a director of the Company, liable to retire by rotation".

7. To consider and if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution.

"RESOLVED that Mr. A. Mohan Rao, be and is hereby appointed as a director of the Company, liable to retire by rotation".

8. To consider and if thought fit, to pass, with or without modifications, the following resolution as a Special Resolution.

"RESOLVED that, in accordance with the provisions of section 31 and other applicable provisions of the Companies Act, 1956, the following amendments be and are hereby approved to be effected to/in, the existing Articles of Association of the Company.

A) By deletion of the following definition in Article 1 :

"Investor" means Nandi Investments Limited, a Company incorporated in Mauritius with its registered office of Les Cascades, Edith Cavells Street, Port Louis, Republic of Mauritius, hereinafter called 'the Investor'.

B) By deletion of the existing Article 33 (d) now reading as :

- (d) So long as INVESTOR holds 5% or more of the shares in the company, matters relating to the following subjects shall be passed by the Board, only with an affirmative / positive vote or consent, in writing, of the Director nominated by the Investor :

1. Issue of new shares or debentures including bonus shares, rights shares or any new class of shares.
2. Increase or reduction of issued shares of the company.
3. Any proposals to reorganize the capital of the company substantially, including proposals for a merger, amalgamations, winding up of the company or for the listing of any class of shares or debentures in the event of company being converted into a limited company, or any other form or reorganization.
4. Any proposal to dispose of the assets in excess of 20% of the Company's net worth.
5. Any proposal to alter the company's business substantially or for it to cease trading.
6. Any issue of a guarantee or an indemnity to any third party other than in the normal course of business.

7. Any resolution to declare a dividend on any class of shares.
8. To incur any capital expenditure in excess of Rs.10 million per annum.
9. Any proposal to borrow in excess of the paid up capital and free reserves of the Company.
10. Any resolution to alter the company's memorandum and Articles of Association of the Company.
11. Any resolution to approve the annual accounts of the Company.
12. Any proposal to include additional directors on the board.
13. Resolution to appoint or reappoint external / statutory auditors of the Company.

C) By deletion of existing Article 39-A now reading as :

So long as the Investor holds 5% or more of the shares in the company, or the shares remain unlisted whichever is later, have the power to nominate atleast one person on the Board of the company to represent the Investor, and has powers to remove and reappoint some other person in his place and such nominee Director is not liable to retire by rotation and need not hold qualification share if any.

By Order of the Board of Directors

R. Ramaswamy
CFO & Company Secretary

Place : Bangalore
Date : 29 May 2002

Notes :

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member.
2. The proxy-form, in order to be valid, should be filed at the Registered Office of the Company, atleast forty-eight hours before the Annual General Meeting.
3. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to the Special Business is annexed hereto.
4. The Register of Members and Share transfer books of the Company will remain closed from 4 July 2002 to 10 July 2002 (both days inclusive) in connection with the dividend being considered for approval in this Annual General Meeting.
5. Dividend, if declared, will be disbursed on or before 10 August 2002, to the members whose names appear in the register of members of Company as on the date of this Annual General Meeting i.e. 10 July 2002.
6. Members are requested to kindly keep the Company immediately informed of any change in their respective mailing addresses.

Explanatory statement

[Pursuant to Section 173(2) of the Companies Act, 1956]

Item No.6

- a. **Mr N.Sivaram**, aged 49 years, an Engineering Graduate in Electronics & Tele-Communications, is presently functioning as Director, think3 Designs India Private Limited, Bangalore, which is a wholly-owned Subsidiary of think3 Designs Inc of USA, with human resources and projects, in the areas of 3D MCAD software solutions and services all over the globe.
- b. **Mr N.Sivaram**, prior to being associated with think3 Designs, held senior positions in Industry, for over 25 years, the first three years with IBM WTC, and the rest with CMC Limited, where he joined as a Field Engineer and, after holding independent responsibilities of various activities, at various levels, finally grew to the position of Vice President & 'CEO' of International Business Unit, during the last six years of his association with that Company.
- c. Your Directors are confident that your Company shall be greatly benefitted with the association of **Mr. N. Sivaram**, who brings with him rich & varied experience in the field of Telecommunications, Software, Datacom & Networking activities in India and abroad and, as such, recommend this resolution for your consideration.
- d. None of the Directors of the Company are concerned or interested in this Resolution.

Item No.7

- a. **Mr A.Mohan Rao**, presently aged 53 years, is a Graduate in Electrical Engineering, with over three decades of post-qualification, Industrial and Business experience.
- b. Now a free-lancing Management Consultant, **Mr. A. Mohan Rao** has been associated with the HCL group of Companies, for over 30 years during which, has established a proven track record of being instrumental in conceiving & successfully implementing strategies for :
 - considerably augmenting revenue streams
 - opening-up new vistas of business
 - identifying, testing and successful development of suitable technologies and markets therefore
 - identifying, testing and successful adoption of principals
 - identifying, screening, recruiting and successful training of suitable technology distributors
 - turning around loss-making companies
- c. Your Directors are confident that your Company shall be greatly benefitted with the association of **Mr.A Mohan Rao**, who has managed a field force of over 1200 and who, has also acquired the distinction of being always a good leader capable of bringing out the best in any person and, as such, recommend this resolution for your consideration.
- d. None of the Directors of the Company are concerned or interested in this Resolution.

Item No.8**Amendments to Articles of Association :**

In October 1996, Nandi Investments Limited, Mauritius, subscribed to 40% approx. of the then paid-up equity of your Company on certain terms as contained in a Subscription Agreement dated 1 October 1996, signed with them, which included, among others, your Company granting them a power to nominate their representative on the Board of your Company, as also your company's obligation to pass certain resolutions at the Board meetings, only with the affirmative/positive vote or consent, in writing, of the director nominated by them, limited, however, till such time they held 5% or more of the equity shares in your company.

The equity holding of Nandi Investments Limited having now fallen below the said five percent, it is now proposed to delete these provisions not required any more.

Your Directors recommend these amendments for your approval.

None of the Directors of the Company are concerned or interested in this Resolution.

REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS

Your Directors have pleasure in presenting herewith their Eighteenth Annual Report on the activities of your Company during the year ended 31 March 2002.

FINANCIAL RESULTS

	2001-2002 (Rs.Millions)	2000-2001 (Rs. Millions)
Total Revenue	848.68	1254.37
Profit before Depreciation	105.73	293.43
Depreciation	8.60	5.38
Profit before Taxation	97.13	288.05
Provision for Taxation	27.69	105.60
Profit after Taxation	69.44	182.45
Prior years expenses	11.56	0.23
Balance for appropriations	57.88	182.68

APPROPRIATIONS

To General Reserve	11.10	150.00
To - Dividend (previous year - 20%)	30.64	20.43
- Dividend Tax on above (including Interim Dividend)	-	2.69
To carry-over to future years	16.14	9.56

DIVIDEND

Considering the requirement of funds relating to projects on hand, as also the duly projected liquidity position, your Directors are convinced that a higher percentage of dividend may be considered this year and, accordingly, recommend a final dividend of 30% for this year (previous year 20%, including interim dividend of 5%).

PERFORMANCE

During the year under review,

- all actions were initiated by your company to further strengthen its manufacturing, technical and service skills;
- the additional facilities installed at the factory facilitated, a quantum increase in manufacturing activity paving way for handling larger volumes of production as also the scope for adding a number of products to the manufacturing line;
- with the above, the manufactured items accounted for over 70% in the total sales revenue.
- of the total sales, within the segment of 'Access & Networking Solutions', the Last Mile Access Products, accounted for 89% of the total sales, with ISDN products & Others, accounting for the balance.
- full scale operations from marketing offices and service outlets situated at Chennai, Delhi, Hyderabad and Mumbai facilitated more effective direct servicing of the customers nationwide.
- the business relationship with all the overseas Principals continues to be very cordial and commercially successful.

- geographically enlarging of the market for your Company's products was accomplished, with initial orders for reasonably considerable quantities and value, having already been received from countries hitherto virgin to your company's products, promising a much larger scope in the current, and coming years.
- the performance of your company was lower than projected due to the weakening economy. The events which occurred around the globe dampened the business environment world-wide, and India was no exception. These unfortunate factors had their effect, particularly on the operations during the first half-year period.

Consequently, your Company registered a revenue of Rs.848 millions, lower by 32% as compared to that of the previous year.

The then prevailing tight market situation warranted certain corrective actions on the selling prices, which resulted in straining the gross margin to an extent. This has since been addressed adequately, by suitably restructuring the procurement rates, with which the percentage of gross margin improved.

As a result of the above, the Profit before Taxation was also lower at Rs 97 million.

With availing of tax benefits, the incidence of taxation was lower at 20% as compared to the full impact of 36.75%, suffered during the previous year.

However, the newly-introduced Deferred Tax Provision accounted for a notional reduction to the extent of Rs.8 million, after which, Profit after Taxation stood at Rs 69 million.

PROSPECTS & OUTLOOK

Networking & Access Products, being a business directly linked to internet backbone, adequate market and sustained growth for your Company engaged in providing solutions and services for Access Networking Market, is always assured.

The products of your company being required for core infra-structural development of any nation, global recession & economy have no direct impact on your company's operations or performance. However, as has been experienced in the year under review, the psychological withdrawal syndrome, the chain effect and the fear psychosis which go with such recessionary trends, do affect the performance.

Your Directors are hopeful and confident that such turbulence the economy is presently undergoing, will have to expeditiously cease, paving the way for development to resume, more out of necessity, both at National and International levels. This will, in turn, resume the growth to the levels accomplished in the recent past. Pending the above, your Directors continue to strive in achieving maximum possible growth within the attending infrastructural constraints.

In this setting, action has been initiated to maximize revenues by investigating feasibilities of commercializing your company's products in new regions, within and outside India and also in additional 'products' such as the knowledge your Company has acquired, over the years, in the allied activities of Network Design & Maintenance.

With the Government's present thrust on developing the telecom sector, many organizations of repute are increasingly registering their presence particularly in that of Basic Service Providers. Your directors are extremely happy to announce here that, all such Organizations continue to patronize the products of your company, with the 'stability & dependability' having already been established. The business from this sector is expected to be considerably large during this, and the coming years.

Export potential to the neighbouring SAARC countries, as well as Malaysia promises high volumes and revenue.

On commercialization of Network Design & Maintenance activity, being convinced that the Far Eastern Countries would be the initial 'best-possible market', fifty percent equity stake has been acquired in a Singapore-based Company for this purpose. This Company has already commenced the groundwork and is expected to start contributing to the revenue in the current and coming years. The Company has also set-up a specialized in-house team for this purpose, naming the division 'e-Sand' Division. Every effort shall be taken to nurse and develop this activity which, once established initially in the Far Eastern Countries, will then be expanded to other global centers.

Your company is also vigorously pursuing a proposal for setting-up a marketing and service outlet in Malaysia for which purpose, negotiations are in the final stage, for acquiring forty nine percent equity stake in a Kuala Lumpur based Company. Your Directors are hopeful of favourably concluding this proposal in the next few months whereafter, this region is also expected to contribute considerably to the revenues of your Company.

Your Directors are confident that, augmenting revenue-earning products and locations, pegging of overhead expenses at the minimum required levels and adoption of cost and value-engineering methods, would secure a healthier bottom-line in the current and coming years.

The new service and marketing outlets set-up in Chennai, Delhi, Hyderabad and Mumbai would constantly be upgraded to fully serve their intended purpose, keeping pace with ever-changing requirements.

FINANCE

During the year under review,

- Corrective actions in 'Procurement and Inventory planning', restructuring of Credit Policy, and strict monitoring of expenditure, facilitated, despite reduced revenues, positive cash inflow and better liquidity, as a result of which, working capital borrowings were restricted to the lowest required levels, facilitating a saving in Financial Charges by over 30% and administrative overheads by over 15%.
- During the current year, with continuing vigorous efforts, the Inventory level is bound to considerably reduce further improving the liquidity situation even better.
- All prudence and caution will be exercised in deploying liquid surplus so generated.
- The weakening of the rupee is a definite concern for your company's performance; however, protective measures of hedging adopted by your company, coupled with the increased scope for export earnings, should adequately address this concern.

Your Directors place on record their sincere appreciation for continuing assistance and whole-hearted support from State Bank of India, Canara Bank and Canbank Factors Limited.

JOINT VENTURE COMPANY

The Joint Venture Company, viz. RAD-MRO Manufacturing Pvt. Ltd. with 51% equity participation by RAD Data Communications Ltd., Israel, and balance 49% by your Company, which commenced operations in June 1998, continued to function satisfactorily and deliver reasonable profits, in addition to achieving other intended benefits such as delivery efficiency and latest technological developments.

During the year under review, this company achieved, as per provisional figures pending audit finalization, a total revenue of Rs.373 million, with a PBT of Rs 33 million and PAT of Rs 25 million, registering an increase, over the previous year, by over 40% in Revenue, 470% in PBT & 625% in PAT.

Your Directors are confident that, in the coming years, this Joint Venture Company will further improve its operating results by adding more products and variants.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Your Directors are deeply appreciative of the excellence and perseverance demonstrated by the employees of your company, whom your company has always recognized as its most invaluable asset.

Mention must be made here of the fact that, the staff of your company, at all levels, contributed considerably in pegging the overheads at the lowest possible levels, without compromising on the quality and efficacy of deliverables, which act of unison is registered with great appreciation.

Every effort is being taken in providing the employees with the best of working ambience, and all assistance is rendered for their achieving the best in leadership qualities, technical knowledge and entrepreneurship.

Your Company had allotted, for cash, certain equity shares to MRO Foundation, to be utilised for the welfare of the beneficiaries of the Trust. This scheme, then referred to as ESOP, being actually a Welfare Plan, has since been titled as "EWP", denoting Employee Welfare Plan. The Trust continues to implement the said EWP in terms of Trust Deed governing the same.

A statement giving particulars of employees, in accordance with Section 217(2A) of the Companies Act, 1956, which forms a part of this report, is available, for inspection by any member, at the Registered Office of the Company, during working hours, for a period of 21 days before the date of the Annual General Meeting, and any member requiring a copy of the said statement may write to the Company Secretary at the Registered Office of your Company.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your company remains committed to maintain high standards of internal control designed to provide adequate assurance on the efficiency of operations and security of its assets. The adequacy and effectiveness of the internal control across the various activities, as well as compliance with laid-down systems and policies are comprehensively and frequently monitored by your Company's management at all levels of the organization. The Audit Committee of the Board, which meets at least four times an year, actively reviews internal control systems as well as financial disclosures.

CONSERVATION OF ENERGY

Efforts to conserve and avoid wastage of energy in every possible way continued during the year under review.