

21 Annual Report
2004 - 05



MRO-TEK LIMITED

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BOARD OF DIRECTORS

S. NARAYANAN	<i>Chairman & Managing Director</i>
H. NANDI	<i>Managing Director</i>
R. RAJAGOPALAN	<i>Director</i>
N. SIVARAM	<i>Director</i>
A. MOHAN RAO	<i>Director</i>
R. RAMASWAMY	<i>CFO & Company Secretary</i>

REGISTERED OFFICE

Bellary Road
Hebbal
Bangalore - 560 024
Ph : (91) (80) 23332951

MANUFACTURING UNIT

29-B, Electronics City
Hosur Road, Bangalore - 560 100
Ph : (91) (80) 28520544

MARKETING OFFICES

Lovlesh Court
Off Turner Road
CTS, No. F/1412
Bandra, Mumbai - 400 050
Ph : (91) (22) 26407311

Flat # 310 - 311
International Trade Tower
Nehruplace, New Delhi - 110 019
Ph : (91) (11) 26449164/65

BANKERS

State Bank of India
Canara Bank

STATUTORY AUDITORS

Narayanan, Patil & Ramesh
Chartered Accountants
103, 1st Floor, Brigade Links
54/1, I Main Road
Seshadripuram
Bangalore - 560 020
Ph : (91) (80) 23343014

INTERNAL AUDITORS

Tambakad and Gail
Chartered Accountants
3, Classique Mansion
6th Cross, HAL 2nd Stage
Off Airport Road
Bangalore - 560 008
Ph : (91) (80) 25211427

REGISTRARS &**SHARE TRANSFER AGENTS**

Karvy Computershare Pvt. Ltd.,
TKN Complex, No. 51/2
Vanivilas Road
Opp. National College
Basavanagudi
Bangalore - 560 004
Ph : (91) (80) 26621192

MRO-TEK LIMITED**NOTICE**

The Members
MRO-TEK LIMITED

NOTICE is hereby given that the Twenty First Annual General Meeting of the Company will be held at 11.00 hours on Wednesday, 10 August 2005, at Hotel Ajantha, Rohini Hall, 22-A, M.G. Road, Bangalore - 560 001, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at 31 March 2005, 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. A. Mohan Rao, who retires by rotation and who, being eligible, offers himself for re-appointment.
4. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification(s), the following resolutions as **Special Resolutions**:

"RESOLVED that pursuant to Sec.94, and other applicable provisions, if any, of the Companies Act, 1956, and pursuant to powers vested with the Company under Article 4 of the Articles of Association of the Company, the authorised share capital of the Company be increased, from the existing Rs.10,50,00,000 (Rupees Ten crores fifty lacs) to Rs.12,00,00,000 (Rupees Twelve crores) split into 2,40,00,000 (Two crores forty lacs) equity shares of Rs.5 each by additionally creating thirty lakhs equity shares of Rs.5 each".

"RESOLVED further that, consequent upon the above, the existing Clause V of the Memorandum of Association of the Company be deleted and be substituted with the following new Clause V thereof:

Clause V: The Share Capital of the Company is Rs.12,00,00,000 (Rupees Twelve crores only) divided into 2,40,00,000 (Two crores forty lacs) equity shares of Rs 5 (Rupees Five only) each".

6. To consider and if thought fit, to pass with or without modifications, the following resolutions as **Special Resolutions**:

"RESOLVED that pursuant to the provisions of Section 81(1A) and all other applicable provisions if any, the Companies Act, 1956 (including any amendments thereto or re-enactments thereof), and in accordance with the provisions of the Memorandum and Articles of Association of the Company and the regulations/guidelines prescribed by the Securities and Exchange Board of India or any other relevant authority, from time to time, and subject to such approvals, consents, permissions and sanctions, the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee including the Compensation Committee), be and is hereby authorized on behalf of the Company, to grant from time to time options under Stock Option Schemes, to apply for equity shares and / or warrants with an option for conversion into equity shares/equity linked securities, convertible into equity shares of the Company, to or for the benefit of such person/persons, who are in the permanent employment of the Company or its subsidiaries in India or abroad, or its holding company(ies) (including the Directors of the Company, whether Whole-time Directors or not) and consequently create, issue, offer and allot, at any time and from time to time, equity shares in terms of such options, the options and the consequential issue, offer and allotment of shares shall be at such price, in such manner, during such period, in one or more tranches, and on such other terms and conditions as the Board may decide.

Provided the total number of options to be granted and outstanding under the scheme, shall not initially exceed 10,00,000 (Ten Lacs) equity shares of Rs 5 each".

"RESOLVED FURTHER that, subject to the terms stated herein, the equity shares allotted under this Employee Stock Option Scheme shall, in all respects, rank pari passu inter-se with the existing equity shares of the Company".

"RESOLVED FURTHER that, for the purpose of giving effect to any offer or grant of options, issue or allotment of equity shares pursuant to the options granted, or securities or instruments representing the same, as described above, under the Employee Stock Option Scheme, the Board be and is hereby authorized on behalf of the Company,

to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose, and with power on behalf of the Company, to settle all questions, difficulties or doubts that may arise in this regard, to such issue(s) or allotment(s) (including the grant of options, issue or allotment of equity shares pursuant to the options granted), without being required to seek any further consent or approval of the members, in its sole discretion as it may deem fit.

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 effective, should be received at the Registered Office of the Company, not less than 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 here to.
4. The Register of Members and Share transfer books of the Company will remain closed from 28 July to 10 August 2005 (both days inclusive) in connection with the dividend being considered for approval in the Annual General Meeting.
5. Subject to the Provisions of Section 206A of the Companies Act, 1956, Dividend as recommended by the Board of Directors, if declared at the Annual General Meeting, will be disbursed on or after 10 August 2005.
6. Under Section 205A of the Companies Act, 1956, the amount of dividend remaining unpaid or unclaimed for a period of seven years from the date of payment is required to be transferred to the Investor Education and Protection Fund of the Central Government and under Section 205-C, of the Companies Act, 1956, no claim shall lie against the Company or the Said Fund, in respect of individual amount which remain unclaimed or unpaid for a period of seven years from the date of payment, and no payment shall be made in respect of any such claims.
7. In view of the above, members who have not encashed the dividend warrant(s) so far for any of the dividends declared earlier, Viz dividend(s) for the year 1997-98 or for any subsequent year/s, are requested to make their claims to the Company immediately.
8. Members are requested to intimate all changes with respect to their bank details, nomination, power of attorney, change of address, change in name, etc. to their depository participant (DP) and/or the Registrars and Share Transfer Agents (RTA) of the Company.

Explanatory statement in respect of Special Business

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

Item 5 & 6: Increase in Authorized Capital and issuance of Employee Stock Option Scheme:

Your Company is in a knowledge-based industry, and is driven by intellectual power available with the individuals working with the Company. This makes it imperative for your Company not only to attract, but also to retain the best of available talents, by reducing attritions to the best possible extent. The Stock Option Plan is one of the facilitators for this purpose, by which such good talents are attracted and retained on a long-term basis, by rewarding them for their performance and talent.

Keeping this objective in mind, the Board of Directors of your Company propose to formulate a suitable Employee Stock Option Scheme, adequately providing for such issue of stock options to employees of the Company, that can be converted into equity shares after a specified period.

The resolutions under (6) above have been proposed to enable your Directors to implement this scheme and, the resolutions under (5) above have been proposed to provide for such increase in capital, as may be necessary pursuant to implementation of such Employee Stock Option Scheme, as also future requirements, if any.

The salient features of such Employee Stock Option Scheme are as follows:

(a) Total number of options to be granted:

The number of options to be granted pursuant to this scheme shall not exceed 5% of the total shares issued by the Company on the date(s) of grant of options. A quantity of 10,00,000 shares of Rs.5 (Rupees Five) each is initially proposed for this purpose.

(b) Identification of classes of employees entitled to participate in the Employee Stock Option Scheme:

Options may be offered to permanent employees of the company (an employee who is a promoter or belongs to

the promoter group shall not be eligible to participate in Employee Stock Option Scheme), directors including whole-time directors, but excluding directors holding in excess of 10% of the equity shares of the Company.

(c) Requirements of vesting and period of vesting:

Except in case of demise or permanent incapacity, continuation of the employee in the service of the Company shall be a primary requirement of the vesting. The Compensation Committee shall formulate the other requirements of vesting which may, inter alia, include efficiency or productivity criteria. The vesting period may vary from allottee to allottee based on various attending circumstances, and shall be at the exclusive discretion of the Compensation Committee, but shall never be lesser than the minimum vesting period stipulated, if any, under provisions of any of the attending statutory enactments.

In the event of the death of an employee while in employment, all the options granted to him till such date shall vest in the legal heirs or nominees of the deceased employee, and in the event of permanent incapacity while in employment, all the options granted to him as on the date of permanent incapacitation shall vest in him on that day.

(d) Maximum period within which the options shall be vested:

The Maximum period within which the options shall be vested shall be completion of five (5) years from the date of grant of option.

(e) Exercise price or pricing formula:

The exercise price would be such price as determined by the Board/Compensation Committee, subject to the guidelines and regulations prescribed by the Securities and Exchange Board of India and / or any other regulatory authority, from time to time, subject to a minimum price of the par value of the equity share. The Board/Compensation Committee is also empowered to implement, cashless stock options, as permissible by law and frame policies related thereto.

(f) Exercise Period and Procedure for Exercise:

The exercise period shall commence from the date of vesting and expire not later than three (3) months from the date of such vesting, and can be extended by further period not exceeding twelve (12) months from the vesting date, upon specific request from the associate concerned, and at the sole and exclusive discretion of the Compensation Committee. The mode or process of exercise of the option will be framed by the Compensation Committee.

(g) The appraisal process for determining the eligibility of employees to the scheme:

The eligibility criteria for the employees under the scheme will be determined by the Compensation Committee based on past and present performance, technical knowledge, professionalism, period of service, designation, responsibility, other qualities and traits or such other basis as the committee may deem fit.

(h) Maximum number of options to be issued per employee and in aggregate:

Except with approval of Shareholders by a Special Resolution, the maximum number of options granted to any one employee in a year will not exceed 1% of the issued Equity Share Capital of the Company at the time of granting of option.

(i) Accounting policies:

The Company shall comply with the disclosure and accounting policies prescribed by SEBI and any other appropriate authority in this regard.

(j) The Company shall use Intrinsic Value method to value its options. The 'Market Value' for this purpose shall mean the average price, two weeks high and low of the closing prices of the said shares, as quoted on NSE, preceding the date of the option.

(k) Since the Company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, and also the impact of this difference on profits and the Earning Per Share of the Company shall be disclosed in the Directors' Report.

The Directors of the Company may be deemed to be interested/concerned, to the extent of their shareholding in the Company and to the extent they may be covered by the Employee Stock Option Scheme.

As such, the resolutions are commended for your approval.

by Order of the Board of Directors

Place : Bangalore
Date : 30 May 2005

R. Ramaswamy
CFO & Company Secretary

REPORT OF DIRECTORS AND MANAGEMENT DISCUSSION & ANALYSIS

Your Directors have pleasure in presenting herewith their Twenty First Annual Report on the activities of your Company during the year ended 31 March 2005.

FINANCIAL RESULTS

	2004-2005 (Rs. Millions)	2003-2004 (Rs. Millions)
Net Revenue	1,196.39	1,010.47
Profit before Depreciation	192.59	84.25
Depreciation	40.58	12.95
Profit before Taxation	152.01	71.30
Exceptional Items	80.97	17.04
Provision for Taxation	29.51	19.03
Profit after Taxation	41.53	35.23
Prior year income	1.14	1.55
Balance for appropriations	42.67	36.78

APPROPRIATIONS

To General Reserve	10.00	10.00
To Dividend - 25% (previous year-20%)	25.54	20.43
To Dividend Tax	3.58	2.62
To carry-over to future years	3.55	3.74

DIVIDEND

Duly recognizing the higher quantum of balance available for appropriations, your Directors are pleased to recommend a higher dividend of 25% (previous year 20%), in keeping with their continuing commitment to the members.

PERFORMANCE

During the year under review,

- endeavor to maximize strong and satisfied customer base continued;
- patronage of the existing customers continued to be received for your company's products and services, consequent upon your company maintaining the impeccable track record of quality and delivery efficiency, to the customers' utmost satisfactory levels;
- new customers, new geographic locations and new products, including a few developed in-house at the R&D initiative, were added;
- in this setting, your Company achieved a net revenue of Rs. 1,196 million, registering an increase of 18% over that of the previous year;
- despite continuing pressure on the selling prices in the teeth of keen market competition, vigorous marketing efforts coupled with cease-less cost-reduction activities on EDLC (Everyday Low Cost) basis, brought about increase in average operating profit, as compared to prior years;
- conscious monitoring continued, to peg inventory, receivables and overheads, at the minimum required levels;
- the above facilitated a quantum rise in Profit Before Taxes, to register Rs. 152.01 million, as compared to Rs 71.30 million of the previous year;

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- Final Order was received from the Appropriate Authorities, on the application preferred by your Company, against the department's claim for differential customs duty. Guided by business prudence, the said Final Order was conceded to, and an amount of Rs 81.05 million was paid, and absorbed in these accounts, duly reflected under 'exceptional expenses';
- after absorbing the above, the resultant profit, at Rs. 71.04 million, registered an increase of 30% over Rs 54.26 million of the previous year;
- the Profit After Taxation, at Rs 41.53 million, also registered an increase of 17% over Rs 35.23 million of the previous year;
- this facilitated, in addition to transfer to Reserves of same amount as the previous year, recommendation for a higher dividend too.

Your Directors reassure that, all efforts shall continue, to sustain satisfactory margins, and to further consolidate retained earnings.

PROSPECTS & OUTLOOK

With constant vigil over ever-changing technological trends, and consistent upgrading of equipment adaptable to such improvement, your Company continues to succeed in sustaining its leadership position in the market. Indisputable superiority in quality, and timely service further facilitate cementing of such strong base.

Inspired by such recognition, and being fully aware of the responsibility thereby cast, your company continuously strives to live upto such expectations of its valued customers.

The demand for your Company's products, in service sectors such as Banking, Finance, and Telecom continues to be on the rise, and your Company is very closely monitoring such demands.

Through the facilities in the in-house R&D section of your Company, vigorous efforts are taken to develop and commercialize certain 'next generation equipments' which would have considerable market, also in the technologically well-advanced Countries.

Your Directors are hopeful that, such continuing endeavors shall result in augmenting the product-line, market, total revenue, as well as higher retained earnings of your company, in the coming years.

FINANCE

During the year under review, Close monitoring of finances, pegging of inventory, receivables and overheads at the minimum required levels, facilitated further saving in finance charges.

Strengthening of Rupee against the Dollar, and resorting to more economical, need-based, temporary borrowings, added that extra flavor in bringing about such reduction in finance charges.

Your Directors place on record their sincere appreciation for continuing assistance, guidance, co-operation and whole-hearted support from your company's bankers.

PENDING CLAIMS / APPLICATIONS:

The proceedings pertaining to the application made by your company relating to the demand from the Income Tax Department for a sum of Rs 37.36 million as incremental income tax payable for the three Assessment Years of 1998-99, 1999-2000 and 2000-01, are still pending.

As per legal advise received by your company, the outcome of these proceedings shall be favoring your Company, and as such, no provision need be made in the financial accounts.

Your Directors shall take all requisite steps to protect every interest of the shareholders.

JOINT VENTURES

- a) RAD-MRO Manufacturing Pvt. Ltd., the Joint Venture Company at Bangalore, India, continued to deliver the intended benefits such as delivery efficiency, access to latest technological developments, and reasonable profits.

During the year under review, this company achieved, as per provisional figures pending audit finalization, a total revenue of Rs. 170.86 million, with a PBT of Rs 0.30 million and PAT of Rs. 0.07 million.

- b) MRO-TEK Singapore Pte. Ltd., the Joint Venture Company at Singapore with 50% equity participation involving an investment of Rs 1.06 million, remained dormant throughout the year under review, as the company continued to face the administrative restriction of inability to commercialize the intended activity of 'network design consultancy services', without ability also to supply the corresponding equipment. As such, your Directors are likely to take a suitable decision on this Company during the current year.

ANNUAL REPORT 2004 - 2005

During the year under review, this company registered NIL income, and a marginal Net Loss of Rs. 0.02 million, arising out of inevitable administrative expenditure. Proportionate amount of such loss has duly been provided for, under 'diminution in value of investment' as detailed in Note 22 of 'Notes to Accounts' attached hereto.

- c) Requisite actions have been completed for voluntary winding-up of Afiintra-MRO Sdn Bhd, the Joint Venture Company at Kuala Lumpur, Malaysia, with 49% equity participation involving an investment in capital of Rs 0.14 million, as detailed under Note 9 of 'Notes to Accounts' attached hereto.

HUMAN RESOURCES & INDUSTRIAL RELATIONS

Your company continues to regard and recognize its human power as its best and most valuable asset, whose all round contribution to the well-being of your company is deeply appreciated. Rendering of assistance to the employees, continues for their achieving the best in leadership qualities, technical knowledge and entrepreneurship. In the heavily competitive scenario where attrition has become a very common feature, your Directors are making every effort in ensuring that the best of talents are not only attracted, but also retained by adequate rewards.

As a means of retaining the best of talents on a long-term basis, introduction of Employee Stock Option Scheme is felt absolutely essential. As such, the requisite resolutions have been proposed in the Notice convening the Annual General Meeting, and your Directors commend the same for your approval.

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended from time to time, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the members, excluding the statement containing the particulars of employees to be provided under Section 217(2A) of the Companies Act, 1956. Any member interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Company Secretary for a copy.

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Your company continues to remain 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 a year, actively reviews internal control systems as well as financial disclosures.

CONSERVATION OF ENERGY

During the year under review, efforts continued to conserve and avoid wastage of energy in every possible way.

RESEARCH & DEVELOPMENT

Encouraging response has so far been received on the products developed in-house by the R&D section of your Company, and placed with various customers, including a few situated outside India, on field trials. Complete commercialization is expected to be achieved in phases, during the current and coming years.

All the overhead expenses incurred in R&D activities continue to be absorbed, in accordance with the attending accounting standards.

Steps have already been initiated for adequately protecting the patent rights & the Trade mark, pertaining to these products.

During the year under review, an additional amount of Rs. 2.02 million (Prev. year- Rs.12.63 million) has been invested in equipment required for this Division. Apart from the same, an amount of Rs 26.18 million (Prev. year - Rs.24.24 million) has been defrayed towards Revenue Expenses, which has been absorbed in these accounts, in accordance with the attending accounting standards.

TECHNOLOGY ABSORPTION

Endeavor to fully assimilate globally-latest technological trends, continue by way of online updation by the principals, training of technical staff of your Company at various sites, also of the principals, and periodical visits by the technical executives of the principals exclusively for imparting training to the staff of your Company.

The dedicated Engineering cell is satisfactorily progressing in their endeavor to indigenize technology and components, as well as implementation of value-engineering and cost-saving methods.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Development of overseas market, particularly in the adjoining SAARC countries for the existing products, as also development of products required for the overseas market, are continuously being attempted. Efforts also continue to minimize foreign exchange outflow by the process of indigenization.

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Full details of foreign exchange outflow and earnings/inflow are furnished under note no. 16 and 17 of Notes on Accounts.

CORPORATE GOVERNANCE

A detailed compliance note on Corporate Governance, as required under the provisions in the listing agreement with the Stock Exchanges, together with the certificate of Statutory Auditors thereon, is attached to this report.

MANAGEMENT DISCUSSION AND ANALYSIS

As requisite and appropriate Management Discussion & Analysis is covered under this Report itself, a separate note on the same is not being furnished.

DIRECTORS

Mr. A. Mohan Rao, retires by rotation at this meeting, and being eligible, offers himself for re-appointment. This resolution is commended for shareholders approval.

AUDITORS

M/s. Narayanan, Patil & Ramesh, Chartered Accountants, Bangalore, retire as Statutory Auditors with the conclusion of this Annual General Meeting. Being eligible for re-appointment, the Directors recommend the same for consideration.

ACKNOWLEDGEMENTS

Your Directors place on record their sincere gratitude to the continuing patronage of the valued Customers, who have sustained their support and encouragement to your Company.

Your Directors also place on record, their sincere appreciation of the dedication and commitment of the Company Staff at all levels, who have together been responsible for the growth of the Company.

Your Directors wish to register their acknowledgement and appreciation for the timely support and co-operation being extended by the Banks and all their Executives.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217(2AA) of Companies Act, 1956, your Directors hereby confirm that

- in the preparation of these annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- they have selected such 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 and of the profits for that period;
- they 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;
- they have prepared annual accounts on a 'going concern' basis.

for & on behalf of the Board of Directors

Place : Bangalore
Date : 30 May 2005

S. Narayanan
Chairman & Managing Director