

NELCO

L I M I T E D

59th ANNUAL REPORT 2000-2001

NELCO LIMITED

59th Annual Report 2000-2001

| | |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chairman Emeritus : | R. N. Tata |
| Board of Directors : | K. M. Gherda (<i>Chairman - Resigned w.e.f. 17.8.2001</i>) M. N. Bhagwat (<i>Chairman - Appointed w.e.f. 28.9.2001</i>) Virendra Singh B. B. Dubash A. J. Engineer K. A. Mahashur (<i>Executive Director</i>) Z. J. Engineer (<i>Executive Director</i>) |
| Company Secretary : | S. B. Mule |
| Bankers : | Bank of India, Mumbai. Allahabad Bank, Mumbai. Union Bank of India, Mumbai. Credit Agricole Indosuez, Mumbai. ABN Amro Bank N.V., Mumbai. |
| Solicitors : | Mulla & Mulla and Craigie, Blunt & Caroe. |
| Auditors : | N. M. Rajji & Co., Mumbai. |
| Registered and Head Office : | Mahakali Caves Road, Chakala, Andheri (East), Mumbai - 400 093. |
| Share Registrars : | Tata Share Registry Limited, Army & Navy Building, 148, Mahatma Gandhi Road, Mumbai - 400 001. Tel.: 2873831 Fax: 2844160 Website: www.tata.com/tsrl |

NELCO LIMITED**Notice**

THE FIFTY-NINTH ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Thursday, 8th November 2001 at 4.00 p.m. at Bombay House Auditorium, 24, Homi Mody Street, Mumbai – 400 001 to transact the following business:

1. To receive and adopt the Directors' Report and Audited Profit & Loss Account for the year ended 30th June 2001 and the Audited Balance Sheet as at that date.
2. To appoint a Director in place of Mr. Virendra Singh, who retires by rotation and is eligible for reappointment.
3. To appoint a Director in place of Mr. M. N. Bhagwat, who was appointed an Additional Director of the Company by the Board of Directors with effect from 31st January 2001 pursuant to Article 125 of the Articles of Association of the Company and who, under Section 260 of the Companies Act, 1956, holds office up to the date of the forthcoming Annual General Meeting but who is eligible for appointment and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of Director under Section 257 of the Act.
4. To consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution.

"RESOLVED THAT sanction be and is hereby accorded to the payment of retirement benefits to Managing/Whole-Time Directors of the Company on their retirement, including a Director who has retired during the year, which benefits, as set out in the explanatory statement hereto, will only be provided to them at the discretion of the Board in each individual case on the recommendation of a Committee of the Board appointed by it, and which benefits are subject to the terms and conditions set out in the Explanatory Statement."

5. To appoint Auditors and fix their remuneration.

NOTES

- (a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
- (b) The relative Explanatory Statement as required by Section 173 of the Companies Act, 1956 in respect of the business under item nos. 3 & 4 set out above is annexed hereto.
- (c) The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, 25th September 2001 to Wednesday, 24th October 2001 (both days inclusive).
- (d) As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Shareholders are requested to kindly bring their copies to the Meeting.

By Order of the Board of Directors,

S. B. Mule
Company Secretary

Mumbai, 28th September 2001.
Registered Office
Mahakali Caves Road,
Chakala, Andheri (East),
Mumbai – 400 093.

Explanatory Statement

As required by Section 173 of the Companies Act, 1956, the following explanatory statement sets out all material facts relating to the business mentioned in item nos.3 & 4 of the accompanying Notice dated 28th September 2001.

Item No.3

The Board of Directors appointed Mr. M. N. Bhagwat as an Additional Director of the Company with effect from 31st January 2001. Pursuant to Section 260 of the Companies Act, 1956, Mr. Bhagwat holds office upto the date of the forthcoming Annual General Meeting. Notice under Section 257 of the Act has been received from a Member signifying his intention to propose the appointment of Mr. M. N. Bhagwat as a Director of the Company.

Mr. Bhagwat is B.E. (Mechanical & Electrical) from University of Pune and Gold Medallist. He is M.S. Mechanical Engineering from University of Illinois, USA. Mr. Bhagwat also passed Diploma in Business Management from Bajaj Institute of Management, Mumbai. Mr. Bhagwat held Senior Managerial positions, both in India and U.S. and has more than 40 years experience in engineering and electronics industries and in general management. At present Mr. Bhagwat is an Advisor to Tata Sons Limited, Head of Corporate Assurance Group for the Administration of Tata Brand Equity. In view of Mr. Bhagwat's Academic & Professional qualifications and wide industrial and managerial experience, it is in the interest of the company to continue to avail of the expertise and guidance of Mr. M. N. Bhagwat.

The Board commends the Resolution for acceptance by the members.

Item No.4

At its Meetings in April 2000 and January 2001, the Board of Directors approved of a retirement policy and payment of retirement benefits to the Company's Managing/Whole-Time Directors (collectively called 'Whole-Time Directors') under which certain benefits could be provided to such Directors on their retirement as Whole-Time Directors of the Company.

The benefits to be provided to the retiring Whole-Time Directors will be at the discretion of the Board in each individual case on the recommendation of a Committee appointed by the Board from time to time and subject to the condition that the retiring Director undertakes not to engage in or start, directly or indirectly, any business or activity competing with the business of the Company.

The retirement benefits may include compensation in the nature of a monthly payment related to last drawn salary and length of service with the Tata Group (and on the death of the Director portion thereof to the spouse for lifetime); ex-gratia payment related to length of service and medical benefits, as may be decided by the Board.

It is considered appropriate as a measure of good corporate practice that the Shareholder's approval be sought to the said payments.

The Resolution is commended for acceptance by the Shareholders. Past and Present Whole-Time Directors, to the extent they may be entitled to these benefits, may be deemed to be concerned or interested in the Resolution at item No.4 of the Notice.

By Order of the Board of Directors,

S. B. Mule
Company Secretary

Mumbai, 28th September 2001.

Registered Office
Mahakali Caves Road,
Chakala, Andheri (East),
Mumbai - 400 093.

NELCO LIMITED**DIRECTORS' REPORT****To the Members**

The Directors present their Fifty-Ninth Annual Report together with the Audited Statement of Accounts for the fifteen months period ended 30th June 2001.

1. FINANCIAL RESULTS

| | (Rupees in Lakhs) | |
|-----------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| | For the 15 months Ended 30.6.2001 | For the 12 months Ended 31.3.2000 |
| Sales and other Income | 10923.89 | 11721.55 |
| Profit for the year after Depreciation | 648.40 | 439.73 |
| Less : Deferred Revenue Expenditure (Voluntary Retirement Schemes) | -294.48 | -269.55 |
| Profit before tax | 353.92 | 170.18 |
| Provision for tax | 235.00 | 55.00 |
| Profit after tax | 118.92 | 115.18 |
| Add : (a) Balance brought forward from last year | 276.33 | 239.81 |
| (b) Transfer from Investment Allowance Reserve | — | 2.59 |
| (c) Transfer from Debenture Redemption Reserve | — | 43.75 |
| Balance available for appropriation | 395.25 | 401.33 |
| Less : Transfer to General Reserve | 125.00 | 125.00 |
| Balance carried to Balance Sheet | 270.25 | 276.33 |

2. INDUSTRIAL SYSTEMS DIVISION (ISD)

- 2.1 The contract of Rs. 82.62 crores for supply of Unattended Ground Sensors (UGS) to the Indian Army, for deployment at strategic locations covering supply of 324 sets is in progress.

Further orders are expected since the defence requirement is several times this value over the next 3 years. The manufacturing of the product has been undertaken at the Company's Mahape facilities based on the technology from Eagle /Telonics of USA.

- 2.2 During the year the SCADA Contracts for Tata Power Borivali, Indian Railways, ONGC, and Power Grid Corporation of India (PGCIL) were executed. The Large Southern Load Despatch Centre EMS SCADA Contract jointly executed by GE-Harris, USA and Nelco is in its advanced stage of completion and handing over.
- 2.3 The Auxiliary Converters for 3 phase Locomotives for Chittaranjan Locomotive Works (CLW) of Indian Railways were successfully indigenised and approved by RDSO. Those have been field tested successfully and cleared for regular bulk manufacture by the Railways.

- 2.4 In the field of Drives and Automation the sales have been considerably lower due to a severe recession in the Steel and general industry sectors.

3. TATANET DIVISION

- 3.1 During the year under review the Tatanet Division of the group consolidated its position by selling additional bandwidth and adding new stations for existing Tata group customers.

4. PROPERTY DEVELOPMENT AT ANDHERI

- 4.1 The construction of the Technopolis Knowledge Park being developed at Andheri with the assistance of Tata Housing Development Company Limited has been completed. Most of the floors have already been leased.
- 4.2 During the year the Company sold a part of its property at Andheri for a total consideration of Rs. 31.75 crores.

5. EXTENSION OF FINANCIAL YEAR

- 5.1 The Company's current financial year has been extended by three months upto 30th June 2001 with the expectation that a major portion of a large System's Order of Rs.82.62 crores,

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received last year, would be executed before the end of the extended year. However, invoicing could not be done as certain approvals were delayed.

6. FUTURE OUTLOOK

- 6.1 With greater thrust in the new areas of Defence Electronics and SCADA, the ISD is expected to have sustained business.
- 6.2 The ISD continues to hold its prominence in the field of SCADA Systems. The ISD is planning to enter the Power Distribution market in India in association with SNC - LAVALIN of Canada.
- 6.3 TATANET division is also looking at other new products like Video conferencing.
- 6.4 Completion of the restructuring plan commenced last year, including VRS programme out of the proceeds from sale of property, is also expected to contribute to improve operational efficiency and profitability.

7. FIXED DEPOSITS

- 7.1 The Company had an aggregate amount of Rs. 793.38 Lakhs as deposits from Public, share holders and employees as on 30th June 2001. These include deposits amounting to Rs. 20.77 Lakhs from 117 depositors that had matured but had neither been claimed nor renewed by depositors as on 30th June 2001. However, subsequently, 20 depositors claimed Rs. 3.28 Lakhs.

8. PARTICULARS REQUIRED UNDER SECTION 217 OF THE COMPANIES ACT, 1956

- 8.1 Information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure to the Report.
- 8.2 Pursuant to the requirements of section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, a statement giving the required information relating to employees covered by the said Section is also annexed.

9. HEALTH AND SAFETY

- 9.1 No hazardous operations are involved in the manufacturing activities of the Company. Nevertheless, the required focus is provided

to continuously monitor and improve the working environment including health and safety.

10. DIRECTORS

- 10.1 Mr. K.M. Gherda resigned from the Board of the Company with effect from 17th August 2001. The Directors place on record its appreciation of the extensive and valuable contribution of Mr. K.M. Gherda during his long association with the company. The Directors would like to pay a special tribute to Mr. K.M. Gherda for his leadership of the Company as its Chairman for a period of 7 years from 23rd March 1994 to 16th August 2001. Mr. Gherda had brought with him a wealth of experience, which he put to excellent use while guiding the company.
- 10.2 Mr. J.K. Setna resigned from the Board of the Company with effect from 31st January 2001. The Directors place on record their appreciation of the services rendered by Mr. J.K. Setna during his tenure as Director of the Company.
- 10.3 Mr. C.R. Vevaina resigned from the Board of the Company with effect from 31st August 2000. The Directors place on record their appreciation of the contribution of Mr. C.R. Vevaina during his tenure as Director of the Company.
- 10.4 The term of office of Mr. D.J. Fernandes as a whole-time Director of the Company expired on 2nd November 2000. The Directors place on record their appreciation of the valuable contribution made by Mr. D.J. Fernandes to the Company.
- 10.5 Mr. A.J. Engineer Managing Director of The Tata Power Company Limited was appointed Director of the Company with effect from 30th October 2000 in the casual vacancy caused due to the resignation of Mr. C.R. Vevaina.
- 10.6 Mr. M.N. Bhagwat Advisor to Tata Sons Ltd. was appointed an Additional Director of the Company with effect from 31st January 2001. Mr. Bhagwat was elected as the Chairman of the Board with effect from 28th September 2001.
- 10.7 In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company Mr. Virendra Singh retires by rotation at the forthcoming Annual General Meeting and is eligible for reappointment.

NELCO LIMITED**11. AUDITORS**

- 11.1 Members are requested to appoint Auditors for the current year and fix their remuneration. Messrs. N.M. Raiji & Company, the existing Auditors have confirmed their willingness to continue, if appointed.

12. EMPLOYEE RELATIONS

- 12.1 The relationship between the employees and the Management has remained co-cordial and the Directors wish to place on record their appreciation of the Co-operation and Support received from employees at all levels.

13. REPORT ON CORPORATE GOVERNANCE

- 13.1 Pursuant to clause 49 of the listing Agreement with the Stock Exchange, Corporate Governance Report is made a part of the Annual Report.

14. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors hereby confirm:

- i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) that the Directors had 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 profit of the Company for that period;

- iii) 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 for preventing and detecting fraud and other irregularities ;
- iv) that the Directors had prepared the annual accounts on a going concern basis.

15. ACKNOWLEDGEMENTS

- 15.1 The Directors also take this opportunity to acknowledge the support and assistance received from the Company's Bankers and Financial Institutions.

By order of the Board of Directors,

Mumbai, 28th September 2001.

M. N. BHAGWAT
Chairman

Annexure to the Directors' Report

DISCLOSURE OF PARTICULARS PURSUANT TO THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT.

A. Conservation of Energy

Though energy does not form a significant portion of the cost for the Company, constant feasible efforts are being made to conserve energy and optimise power cost.

B. Technology Absorption

The major thrust of the R&D activities has been in the areas of
Network Management Systems and SCADA Energy Management System
Defence Electronics

Future Plan of Action

- (a) To upgrade technology particularly in the area of Energy Management System to meet the requirement of Power Industry.
- (b) To maintain regular interface with technical associates and collaborators so as to remain contemporary in the field of product development.

Expenditure on R&D

Rs. in Lakhs

| | |
|--------------------------------------------------------|-------|
| Capital | — |
| Revenue and Recurring | 3.40 |
| Total | 3.40 |
| Total R& D expenditure as percentage of total turnover | 0.05% |

Technology Absorption, Adaptation and Innovation

Constant endeavour is being made towards technology absorption, adaptation and innovation. The focus has been on improving the quality of the products and developing new product designs adapted to suit the local requirements.

C. Foreign Exchange Earning and Outgo

Rs in Lakhs

| | |
|-------------------------------|---------|
| Total Foreign Exchange earned | 607.96 |
| Total Foreign Exchange used | 3875.10 |

By order of the Board of Directors,

M. N. BHAGWAT
Chairman

Mumbai, 28th. September 2001.

NELCO LIMITED**ANNEXURE TO THE 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 30th JUNE 2001.

| EMPLOYEE NAME | AGE | EXPER- IENCE | DATE OF JOINING | QUALIFI- CATIONS | DESIGNATION | GROSS AMT Rs. | NET AMT Rs. | PREVIOUS EMPLOYMENT/ EXPERIENCE |
|-----------------------|-----|-----------------|--------------------|------------------------|-------------------------|------------------|----------------|-------------------------------------------------------|
| BAGCHI B.K. * | 45 | 13 | 25/06/87 | B.E. (ELECT.) | DY. G.M. MKTG. | 598001.00 | 518617.00 | HINDITRON LTD. S/W MANAGER |
| BALASUBRAMANIAM V. * | 60 | 20 | 02/05/80 | D. M. E. | DIV. MGR. | 681187.00 | 633532.00 | CROMPTON GREAVS LTD. IN CHARGE -VENDOR DEVELOPMENT |
| CHAKRABORTY RANAJIT * | 60 | 40 | 01/05/60 | — | ASST. MGR. ACCOUNTS. | 800327.00 | 778079.00 | — |
| CHOWDHURY T.K. * | 58 | 25 | 01/08/75 | B.A. | SECRETARY. | 438378.00 | 428986.00 | MANORAJAN CHAKRABORTY & SONS LTD. STENO GRAPHER |
| DANIEL JACOB. * | 46 | 13 | 11/01/88 | B. Sc., B.E., PG. DIE. | MGR. PRODN. | 1163154.00 | 1005988.00 | GRASSIM INDUSTRIES LTD. MAINTANANCE ENGG. |
| ENGINEER Z. J. | 56 | 34 | 14/01/74 | AMIE | EXECUTIVE DIRECTOR | 1778908.00 | 1101505.00 | TATA ELECTRIC CO. R&D DEVELOPMENT ASST. |
| FERNANDES D. J. * | 65 | 43 | 31/08/65 | B.E. DIM | EXECUTIVE DIRECTOR | 2696632.00 | 1954892.00 | TATA MERLIN & GERIN LTD. MANAGER PRODUCTION |
| HATE C.H. * | 49 | 12 | 10/12/87 | DIP. RADIO SERV. | DY. MGR. SERV. | 235732.00 | 232600.00 | TELVISTA ELECTRONICS LTD. SERVICE INCHARGE |
| MAHASHUR K. A. | 54 | 32 | 18/10/68 | M. Tech. | EXECUTIVE DIRECTOR | 1954340.00 | 1234195.00 | TATA ELECTRIC CO. SR. DEVELOPMENT ASSOCIATE |
| MORAWALA A. M. * | 43 | 10 | 10/03/90 | B. Sc., DRE, DSTV | SR. MGR. ENGG. | 142219.00 | 139234.00 | GODREJ & BOYCE MFG. CO. LTD. |
| NAGARAJAN. R. * | 58 | 37 | 01/04/83 | — | SERVICE EXECUTIVE | 330874.00 | 322931.00 | — |
| PARAB S.J. * | 39 | 18 | 18/06/81 | DIP. RADIO ENGG | SR. ENGG Q.C. | 114334.00 | 112765.00 | — |
| PUNDOL PERCY * | 41 | 14 | 17/08/87 | B. Tech. | DY. MGR SERV. | 1058743.00 | 924083.00 | PHILIPS INDIA LTD. SERVICE ENGG. |
| ROY KAJAL. SINHA * | 45 | 12 | 12/10/87 | — | SR. SALES EXECUTIVE | 113033.00 | 110280.00 | — |
| SHARMA S.R. * | 54 | 26 | 08/07/74 | B. Com. | OFFICER | 268940.00 | 248498.00 | KHAITAN FANS LTD. BRANCH ACCOUNTANT |
| SOLOMON.L.A. * | 42 | 17 | 12/12/83 | DIP. RADIO TV. | OFFICER | 133188.00 | 131640.00 | PRASHANT RADIO SERVICE LTD. MECHANIC |
| VAIDYA J.B. * | 56 | 29 | 01/10/71 | DIP. ELEC. ENGG. | AREA SALES MGR. | 257667.00 | 244214.00 | KUNDAJI ASSOCIATES. SUPERVISOR |

NOTES:

1. The remuneration of the employees listed above includes company's contribution to Provident and Superannuation Funds, leave travel assistance etc., in accordance with the Company's rules and gratuity and other benefits/compensation to those who ceased to be in service during the period.
2. Net Remuneration is after tax and is exclusive of company's contribution to Provident and Superannuation funds.
3. All the employees have adequate experience to discharge the responsibilities assigned to them.
4. Mr Z. J. Engineer is a relative of a Director of the Company.
5. The nature of employment in all cases is contractual.
6. *Indicates employed for part of the year.

By Order of the Board of Directors,

M. N. BHAGWAT
Chairman

MUMBAI, 28th September 2001.

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Report on Corporate Governance

A. The Company firmly believes in and has practiced good Corporate Governance. The Company's essential character is shaped by the very values of transparency, professionalism and accountability. The Company will endeavor to improve of these aspects on ongoing basis.

B. Board of Directors

The Board of Directors comprises of two Executive Directors and 4 Non Executive Directors. The Company has a Non-Executive Chairman and the number of Independent Directors are more than one-third of the total number of Directors.

During the year 8 Board Meetings were held on 28th April 2000, 12th June 2000, 31st July 2000, 11th August 2000, 30th October 2000, 31st January 2001, 21st March 2001 and 27th April 2001.

The Composition of Directors and their attendance at the Board Meeting during the year and at the last Annual General Meeting as also number of other directorships/membership of Committees are as follows: -

| Name of Director | Category of Directorship | No. of Board Meetings Attended | Attendance at last AGM | No. of other Directorship | Committee Membership | |
|------------------|--------------------------|--------------------------------|------------------------|---------------------------|----------------------|--------|
| | | | | | Chairman | Member |
| K. M. Gherda | Chairman | 8* | YES | 9 | 2 | — |
| V. Singh | Director | 8 | YES | — | — | 1 |
| J. K. Setna | Director | 5** | YES | 19 | — | — |
| C. R. Vevaina | Director | 4** | YES | 10 | — | — |
| B. B. Dubash | Director | 2 | NO | 3 | — | — |
| A. J. Engineer | Director | 3 | NO | 12 | — | 2 |
| M. N. Bhagwat | Director | 3 | NO | 2 | 4 | 2 |
| D. J. Fernandes | Director | 4** | YES | 1 | — | — |
| K. A. Mahashur | Director | 8 | YES | 3 | — | 3 |
| Z. J. Engineer | Director | 7 | YES | 1 | — | 3 |

* Resigned with effect from 17th August 2001.

** Part of the year

Directorships of Private Companies, Foreign Companies and Associations are excluded.

C. Committee of Directors

(i) Audit Committee

The Audit Committee was constituted by the Board of Directors at its Meeting held on 27th April 2001. The Committee was reconstituted on 12th September 2001 consequent upon resignation of Mr. K. M. Gherda from the Board.

The Composition of the Audit Committee is given below :—

| Name of the Member | Designation |
|--------------------|-------------|
| Mr. M. N. Bhagwat | Chairman |
| Mr. A. J. Engineer | Member |
| Mr. Virendra Singh | Member |

The Company Secretary, Mr. S. B. Mule is the Secretary.