

NELCO LIMITED

A TATA Enterprise



62nd Annual Report
2003-2004

NELCO LIMITED

62nd Annual Report 2003-2004

Chairman Emeritus :	R. N. Tata
Board of Directors :	M. N. Bhagwat (Chairman)
	Virendra Singh
	B. B. Dubash
	F. A. Vandrevalla
	R. R. Bhinge (Appointed Addnl. Director w.e.f. 29.8.2003)
	V. K. Deshpande (Appointed Addnl. Director w.e.f. 30.7.2004)
	K. A. Mahashur (Executive Director)
	Z. J. Engineer (Executive Director)
Company Secretary :	S. B. Mule
Bankers :	Bank of India, Mumbai. Allahabad Bank, Mumbai. Union Bank of India, Mumbai. Caylon Bank, Mumbai. ABN Amro Bank N.V., Mumbai.
Solicitors :	Mulla & Mulla and Craigie, Blunt & Caroe.
Auditors :	N. M. Raiji & Co., Mumbai.
Registered Office	Francysters Cybernetics Centre, Eucharistic Congress Building No.III, 3 rd Floor, 5, Convent Street, Colaba, Mumbai – 400 039.
Share Registrars :	Tata Share Registry Limited Army & Navy Building, 148, Mahatma Gandhi Road, Mumbai - 400 001. Tel.: 56568484 Fax: 56568494 Website: www.tatashare.com

Chairman's Statement

Dear Shareholders,

This statement is being issued in view of the disappointing financial performance of the Company for the extended financial year 2003-2004 and in the circumstances in which your Company is placed.

Over the last decade, the Automation and Controls Lines of businesses (LoB), which are handled by the Industrial Systems Division (ISD), faced externally, a very difficult period in terms of demand for their equipment, products and services from the served industries. These difficulties were further aggravated due to intense competition from well-established large multinationals, which impacted the Company's order bookings, sales, and margins. Till recently, the Management also faced difficulties to develop and implement growth initiatives in adjacent areas in view of the high entry barriers created by the well-entrenched players and that too, in an economic down turn. These factors led to inconsistent and generally under-performance of the Automation and Control LoBs.

During the last three years, the Company did achieve a break-through as a satisfactory supplier to the Ministry of Defence, which have demanding requirements of quality and performance, and overcame, to a certain extent, the high entry barrier of the Defence business. The Company successfully set up "Strategic Electronics" as a focused LoB. Prior to the financial year under review, this LoB contributed significantly to the Company's Income in the last 2 years. It should however, be recognized that the LoB does face some risks of long cycles between Enquiry, Order and Revenue.

Shrink in other LoBs of ISD over the last several years and changes in the mix required a significant reduction in total man-power, mainly in the shop floor work-force. During this period, the Company strength was reduced from 1296 to current 400 plus. The Company was compelled to carry out several voluntary retirement schemes, which incurred large costs.

In the past, due to factors both external and internal, it carried high levels of inventory and debtors because of which the Working Capital requirements remained very large and that too when the borrowing rates were at their peak levels. In addition the VRS schemes also required large quantum of funds, which when added to the Working Capital funds, caused huge borrowing costs for the Company. Large scale provisions and write-offs had to be also made for unusable Inventory and unrecoverable Receivables. It is these costs i.e. VRS and interest, and provisions and write-offs which have hugely impacted your Company's overall profitability in the past and also for the year under review.

For FY 03-04, the Company's performance heavily depended on obtaining and delivering a repeat Ministry of Defence (MoD) order of Unattended Ground Sensors (UGS). Unfortunately, with the recent change in the Government, and other bureaucratic delays, the contract did not get concluded before the year-end and its revenue could not be achieved. The large loss for the current extended year ending is both due to inadequate Revenue and other items such as Interest, VRS and Write-offs amounting to a total of Rs. 32 crores.

The Management recognizes its responsibility to cope up with such issues through positive leadership and action. The Board has directed the Management to focus on those LoBs which have good potential and exit those which have been making losses. Every effort is being made to expand the Strategic LoB through widening of applications, product and service portfolio and establishing of alliances with successful organisations world-wide. Actions are being carried out to reduce debt and the consequent high interest burden and strengthening controls and business processes. Through reduction of work-force the operating costs are also being reduced considerably. Where required, the Management team is being strengthened. Other strategies for de-risking the Strategic Electronics LoB are also being undertaken.

These are valid strategies for ISD and the challenge before your Management is to execute them with far greater urgency and efficiency. On the other hand such changes and actions do not happen over night. Hence there will be some rough times ahead. However, with understanding from our Shareholders, the Management and Employees are committed to perform to their utmost capacity and competence in turning around your Company.

Mumbai,
November 19, 2004



Chairman

NELCO LIMITED

Sixty-second annual report 2003-04

NELCO LIMITED**NOTICE**

The SIXTY SECOND ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Tuesday, 28th December 2004 at 4.00 p.m. at Bombay House Auditorium, 24, Homi Mody Street, Mumbai – 400 001 to transact the following business:

1. To receive, consider and adopt the Audited Profit & Loss Account for the period ended 30th September 2004 and the Audited Balance Sheet as at that date together with the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. B. B. Dubash, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. F.A. Vandrevalla, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. R.R.Bhinge, who was appointed an Additional Director of the Company by the Board of Directors with effect from 29th August 2003 pursuant to Article 125 of the Articles of Association of the Company and who, under Section 260 of the Companies Act, 1956, holds office upto 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.
5. To appoint a Director in place of Mr. V. K. Deshpande who was appointed an Additional Director of the Company by the Board of Directors with effect from 30th July 2004 pursuant to Article 125 of the Articles of Association of the Company and who, under Section 260 of the Companies Act, 1956, holds office upto 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.

6. To consider and, if thought fit, to pass with or without modification, the following Resolution as a Special Resolution;
 "RESOLVED THAT pursuant to the Provisions of Sections 80, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to such consents and approvals as may be necessary and subject to such conditions and modifications as may be considered necessary by the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this Resolution) or as may be prescribed or made in granting such consents and approvals and which may be agreed to by the Board, the consent of the Company be and is hereby accorded to the Board to offer, issue and allot in one or more tranches 25,00,000 Cumulative Redeemable Preference Shares of Rs.100/- each of an aggregate nominal value not exceeding Rs. 25 crores for cash, at par, on such terms and conditions as to rate of dividend, period of redemption, put/call options, as may be decided by the Board in its absolute discretion, to such persons, the Indian Public Companies, Bodies Corporate, Financial Institutions, Mutual Funds, whether Shareholders of the Company or not, as the Board may deem fit, on Private Placement basis.

RESOLVED FURTHER THAT without prejudice to the generality of the above and for the purpose of giving effect to the above, the Board be and is hereby authorized to determine as to when the Cumulative Redeemable Preference Shares are to be issued, the terms of the issue(s) including the Class of Investors to whom the aforesaid shares are to be allotted, number of shares to be allotted in each tranche, issue price, rate of dividend, the terms of cumulating or otherwise of dividends, redemption period, manner of redemption, premium on redemption or premature/early redemption at the option of the Company and/or investor listing on one or more Stock Exchanges and all such terms as are provided in offerings of a like nature as the Board may in its absolute discretion deem fit and to make and accept any modifications in the proposal as may be required by the authorities involved in such issues and to do all such acts, deeds, matters and things, execute all such deeds and documents as may be necessary and settle any questions or difficulties that may arise in regard to the issue(s)."

7. 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.4, 5 and 6 set out above and the relevant details in respect of item nos. 2,3,4, and 5 above pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges are annexed hereto.
- (c) The Register of Members and Share Transfer Books of the Company will remain closed from Friday, 3rd December 2004 to Friday, 24th December 2004 (both days inclusive).
- (d) No hand bags/parcels of any kind will be allowed inside the Auditorium. The same will have to be deposited outside the Auditorium on the Counter provided, at the visitor's own risks.
- (e) 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, 29th October 2004.

Registered Office:

Mahakali Caves Road,
Chakala, Andheri (East),
Mumbai – 400 093.

EXPLANATORY STATEMENT

As required by Section 173 of the Companies Act, 1956, (hereinafter referred to as "the Act") the following explanatory statement sets out all material facts relating to the business mentioned in item nos.4, 5 and 6 of the accompanying Notice dated 29th October 2004.

Item No.4

The Board of Directors appointed Mr. R. R. Bhinge as an Additional Director of the Company with effect from 29th August 2003. Pursuant to Section 260 of the Act. Mr. Bhinge holds office upto the date of the forthcoming Annual General Meeting and is eligible for appointment. Notice under Section 257 of the Act has been received from a Member signifying his intention to propose the appointment of Mr. Bhinge as a Director of the Company.

Mr. Bhinge is B.Tech Hons. (Electrical) from IIT, Mumbai and completed his Post Graduation in Business Administration from IIM, Ahmedabad.

Mr. Bhinge has over 25 years professional experience. He was with Nelco for 14 years and during his tenure with the Company he had multi-functional operating experience in Finance, Marketing, Operations and Profit Centre Management. He was an Author of the 1990 Strategic Plan for Tata Industries Limited and was responsible for its implementation. He participated in various Joint Ventures planning and negotiations. He was involved in all Consultancy assignments undertaken in various Industries by Tata Strategic Management Group (TSMG) since 1991. At present, Mr. Bhinge is a Chief Executive of TSMG.

In view of Mr. Bhinge's academic and professional qualifications and rich and varied professional experience, it is in the interest of the Company to avail of his experience and guidance.

The Board commends the Resolution for acceptance by the Members.

None of the Directors of the Company except Mr. Bhinge may be deemed to be concerned or interested in the Resolution at Item No.4.

Item No.5

The Board of Directors appointed Mr. V. K. Deshpande as an Additional Director of the Company with effect from 30th July 2004 Pursuant to Section 260 of the Act. Mr. Deshpande holds office up to the date of the forthcoming Annual General Meeting and is eligible for appointment. Notice under Section 257 of the Act has been received from a Member signifying his intention to propose the appointment of Mr. Deshpande as a Director of the Company.

Mr. Deshpande is Chemical Engineer from IIT Kharagpur.

Mr. Deshpande has over 20 years experience in various fields including execution of turnkey projects, plant operations total plant solutions etc. He is associated with Tata Honeywell Limited for over 15 years in various leadership roles. At present, he is a Managing Director of Tata Honeywell Limited.

In view of Mr. Deshpande's academic qualifications and rich and varied experience, it is in the interest of the Company to avail of his experience and guidance.

The Board commends the Resolution for acceptance by the Members.

None of the Directors of the Company except Mr. Deshpande may be deemed to be concerned or interested in the Resolution at Item No.5.

Item No.6

The Company has increased its Authorised Capital from Rs.25 crores to Rs.50 crores by creation of 25,00,000 Redeemable Preference Shares of Rs.100/- each.

In order to restructure the capital base of the Company, which would help the Company to take up new activities in due course, it is proposed to issue Cumulative Redeemable Preference Shares of an aggregate nominal value not exceeding Rs. 25 crores.

Section 81 of the Companies Act, 1956 provides, inter alia, that whenever it is proposed to increase the subscribed capital of a company by allotment of further shares, such further shares shall be offered to the persons who on the date of the offer are holders of the equity shares of the Company in proportion to the capital paid-up on that date unless the shareholders in a general meeting decide otherwise. The Listing Agreements executed by the Company with the various Stock Exchanges also provide that the Company shall, in the first instance offer all Securities for subscription pro rata to the shareholders unless the shareholders in a general meeting decide otherwise.

Approval of the shareholders is accordingly sought for the issue of Cumulative Redeemable Preference Shares of an aggregate nominal value, not exceeding Rs. 25 crores, in one or more tranches, on such terms, in such manner at such price or prices and at such time as may be considered appropriate by the Board to the various categories of Investors as set out in the Resolution. The Proposed issue is in the interest of the Company and your Directors commend the Resolution for acceptance.

None of the Directors is concerned or interested in the resolution save to the extent of the Cumulative Redeemable Preference Shares that may be subscribed to by the companies/institutions of which they are Directors or Members.

By order of the Board of Directors,
S. B. Mule
Company Secretary

Mumbai, 29th October 2004.

Registered Office:

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

NELCO LIMITED

Sixty-second annual report 2003-04

NELCO LIMITED

Details of the Directors seeking Appointment/Re-appointment in the forthcoming Annual General Meeting.

(In Pursuance of Clause 49 (VI) (A) of the Listing Agreement)

Name of Director	Mr. B.B.Dubash	Mr.F.A.Vandrevala
Date of Birth	29 th October 1936	17 th October 1950
Date of Appointment	6 th December 1985	28 th May 2002
Expertise in Specific functional Area	Mr. Dubash has rich and varied experience in Shipping, stevedoring and General Management.	Mr. Vandrevala has had a career spanning 29 years at Tata Steel where he held several responsible positions. He left Tata Steel as its Dy. Managing Director (New & Allied Businesses). He has demonstrated outstanding leadership skills through hands-on practice in diverse business areas. Mr. Vandrevala is the Managing Director of The Tata Power Company Limited since 1 st September 2002.
Qualifications	B. Com.	Bachelor of Technology Degree (Hons.) in Electrical Engineering From IIT – Kharagpur. Post Graduate Diploma in Business Management from XLRI, Jamshedpur.
Directorships held in other Companies (excluding Private Limited and Foreign Companies)	<ul style="list-style-type: none"> - Tata Advanced Materials Limited. - COSCO India Shipping Co. Ltd. - Oriental Flora Tech India Ltd. - Trans Ocean Shipping Agency Ltd. - Trans Impex Limited 	<ul style="list-style-type: none"> - Af-Taab Investment Co.Ltd. - Chemical Terminal Trombay Limited - North Delhi Power Ltd. - Power Trading Corpn.of India Ltd. - Tata Ceramics Ltd. - Tata Ryerson Ltd. - Tata Teleservices Ltd. - Tata Teleservices (Maharashtra) Ltd. - The Tata Power Company Ltd. - Videsh Sanchar Nigam Ltd. - Tata Services Limited. - Powerlinks Transmission Ltd. - Tata Power Broadband Co.Ltd. - Tata Power Trading Co.Ltd.
Chairman/member of the Committees of the Boards of other Companies on which he is a Director	NIL	<ul style="list-style-type: none"> - Tata Ryerson Ltd. (Member, Audit Committee) - Tata Teleservices (Maharashtra) Ltd., (Member, Audit Committee) - The Tata Power Company Limited (Member, Shareholders'/ Investors' Grievance Committee).

Name of Director	Mr. R.R.Bhinge	Mr.V.K. Deshpande
Date of Birth	29 th May 1952	21 st July 1957
Date of Appointment	29 th August 2003	30 th July 2004
Expertise in Specific functional Area	Mr. Bhinge has over 25 years professional experience. He was with Nelco for 14 years and during his tenure with the company he had multi-functional operating experience in Finance, Marketing, Operations and Profit Centre Management. He was an Author of the 1990 Strategic Plan for Tata Industries Limited and was responsible for its implementation. He participated in various Joint Ventures planning and negotiations. He involved in all Consultancy assignments undertaken in various Industries by Tata Strategic Management Group (TSMG) since 1991. At present, Mr. Bhinge is a Chief Executive of TSMG.	Mr. Deshpande has over 20 years experience in various fields including execution of turnkey projects, plant operations, total plant solutions etc. He is associated with Tata Honeywell Limited for over 15 years in various leadership roles. At present, he is a Managing Director of Tata Honeywell Limited.
Qualifications	B.Tech Hons. (Electrical) from IIT, Mumbai and Post Graduation in Business Administration from IIM, Ahmedabad.	Chemical Engineer from IIT, Kharagpur.
Directorships held in other Companies (excluding Private Limited and Foreign Companies)	<ul style="list-style-type: none"> - Tata Johnson Controls Automotive Ltd. - Tata Yazaki Autocomp Ltd - Tata Toyo Radiator Ltd. - ITEL Industries Ltd. - Oriental Seritech Ltd. - Oriental Floratech (I) Ltd. - Tata Power Broadband Co. Ltd. - Tata Autocomp Systems Ltd. 	<ul style="list-style-type: none"> -Tata Yutaka Ltd. -Tata Autocom Ltd. -Tata Honeywell Ltd.
Chairman/member of the Committees of the Boards of other Companies on which he is a Director	<ul style="list-style-type: none"> - Tata Autocomp Systems Ltd. (Member, Audit Committee) - Tata Johnson Controls Automotive Ltd. (Member, Remuneration Committee) 	<ul style="list-style-type: none"> - Tata Autocom Ltd. (Chairman, Audit Committee). - Tata Yutaka Ltd. (Member, Audit Committee).

NELCO LIMITED

Sixty-second annual report 2003-04

NELCO LIMITED

DIRECTORS' REPORT

To the Members

The Directors present their Sixty Second Annual Report together with the Audited Statement of Accounts for the eighteen months ended 30th September 2004.

1. FINANCIAL RESULTS

With the permission of the Registrar of Companies, Maharashtra, the Company's Financial Year was extended by six months up to 30th September 2004. The Summarised financial results for the 18 months period ended on 30-09-04 are Indicated below :-

	(Rupees in lakhs)	
	For the 18 months ended 30.09.2004	For the year ended 31.03.2003
Sales and other Income	16730.24	19062.97
Profit/(Loss) for the year after Depreciation	(1419.29)	749.97
Less: Deferred Revenue Expenditure (Voluntary Retirement Scheme)	(653.78)	(441.87)
Profit/(Loss) before tax	(2073.07)	308.10
Profit/(Loss) after tax	(1856.10)	302.91
Add: Balance brought forward from last year	158.75	91.24
Transfer from Debenture Redemption Reserve	63.00	22.00
Balance available for appropriation	(1634.35)	416.15
Less: Dividend (including tax on Dividend)	—	257.40
Balance carried to Balance Sheet	(1634.35)	158.75

2. DIVIDEND

In view of Losses incurred during the year, the Directors regret their inability to recommend any dividend for the year.

3. MANAGEMENT DISCUSSIONS AND ANALYSIS (MD&A)

This Report includes MD&A as appropriate so that duplication and overlap between Directors' Report and a separate MD&A is avoided and the entire material is provided as a composite and comprehensive document.

3.1. BUSINESS SEGMENTS AND STRUCTURE

The current Lines of Businesses are structured along three Business segments:-

1. Automation and Control:

Strategic Electronics : Products , systems and services for security surveillance and communication for Defence and Paramilitary Organizations.

Drives System and Traction Electronics : Integrated Drive Systems for Process Management; Medium Voltage AC Drives for Energy optimization; Traction Electronics for 3 phase locomotives.

Supervisory Control and Data Acquisition System (SCADA) for Utilities, Railways and Oil and Gas Production.

2. Tatanet Network Systems :

VSAT - Wireless Broadband services currently using the VSAT technology to cater to intranet overlay and internet over VSAT services to corporates, SMEs Government/PSUs and Financial Broking.

3. Property Development :

Development of part of the property at Andheri along with Tata Housing Development Company Limited (THDC).

3.2 FINANCIAL OVERVIEW

The loss for the current extended year ending 30th September 2004 is Rs.18.56 crores. This is due to inadequate revenue and other items such as interest Rs.19.17 crores, VRS Rs. 6.53 crores and write-offs Rs. 6.01 crores amounting to a total of Rs.31.71 crores.

Segment-wise Performance is described below :-

SEGMENTS	REVENUE		PROFIT BEFORE INTEREST AND UNALLOCATED EXPENDITURE	
	(Rs.in crores)			
	18 months' ended 30/9/2004	12 months' ended 31/3/2003	18 months' ended 30/9/2004	12 months' ended 31/3/2003
Automation and Control	72.87	75.00	(8.39)	10.58
Tatanet Network Systems	36.14	13.86	1.59	3.74
Property Development	22.67	92.32	7.97	9.30

3.3 AUTOMATION AND CONTROL (INDUSTRIAL SYSTEMS DIVISION (ISD))

There has been a sharp fall of 35% in Revenue, on an annualized basis, mainly due to not being able to secure a large repeat order from the Ministry of Defence for the supply of Unattended Ground Sensors and delivering the same before end of the financial year under review. Also, there was a short fall in new orders in SCADA Line of Business (LoB) due to fewer projects in the market and due to intense competition. In the field of Drives Automation and Traction Electronics, this product group had to bear the brunt of stiff competition and lack of proper foreign tie-ups. The sharp fall in Sales led to a loss of Rs. 8.39 crores (before interest and allocated expenditure) as against the profit of Rs. 10.58 crores in the previous financial year.

The Strategic Electronics business is a leading Private Sector supplier to the defence sector with products such as Global Positioning Systems (GPS) and Unattended Ground Sensors (UGS). Liberalization of procurement in the domestic defence sector has opened up large opportunities for Private sector players. In Strategic Electronics, annual market of around Rs.2500 crores which has hitherto closed to the Private Sector is becoming increasingly accessible. This business is in a nascent stage and is poised for growth. It should also be noted that the delayed UGS order is expected in the beginning of the new financial year and there is potential of additional requirements of the same in the years to come.

Recently, ISD has entered into a strategic alliance with US based Company ASI Robicon (ASIR) which has the largest installed based of MV AC drives. With this tie-up, Nelco's competitive position in the Industry is expected to improve.

In Traction Electronics, there is a big threat from Integrated OEMs like Bombardier and Siemens who compete in the same market with contract manufacturers like Nelco. Besides there is also danger of technology obsolescence. Considering the above, the Company has decided to exit out of this business.

Overall, the outlook for ISD for the financial year FY 04-05 is favourable in view of securing the delayed MoD orders and delivering the same. However, the defence business faces some risk of long cycles between enquiries, orders and revenue and actions are underway to mitigate these risks by pursuing several areas of defence requirements.

The Drives business will continue to be competitive in the medium term since it will take some time for the demand to increase substantially.

3.4. TATANET DIVISION

The division has been providing Closed User Group services to the Tata Group for the last eight years. The division launched its Public Domain Services this year and registered a 74% growth in annualized sales as compared to the previous year.

During the year under review, the initial expenditure for setting up the network which was put into operation only as late as Sept. 04 and the added depreciation of the Ku band hub investment, resulted in lowering annualised profits compared to the previous years by 72%. The margins were generally under pressure due to highly competitive pricing adopted by the Division to acquire new customers which, in a short period of time, resulted in securing, orders for almost 1000 VSATs from various Corporate houses and also coveted empanelment order from NIC (National Informatics Centre).

The division has introduced exclusive third generation broadband VSAT technology from Viasat, USA who are the fastest growing VSAT OEM in the world. This marketed under the powerful INDICOM umbrella brand for telecom offerings from the Tata Group has resulted in this division acquiring 60 new corporate customers in a short time span. Some of these customers were convinced enough to move from their existing VSAT service providers to Tatanet.

With renewed public interest in the stock market, broker portals and their franchisee networks are seeing rapid expansion. The division has successfully targeted this segment to bag orders from 25 broking houses.

The division has leveraged its rich experience of past eight years of running enterprise wide applications for Tata blue chips to make a mark in the non-Tata public domain. It has now formulated an Application Engineering cell to

NELCO LIMITED

Sixty-second annual report 2003-04

NELCO LIMITED

exploit the broadband features of the Viasat platform to offer in the coming year exciting video applications like Conferencing, Distance Training, Townhall Meetings etc.

Tatanet is now a member of VSAI, the VSAT industry body which is pursuing with TRAI and DoT to liberalize the stiff regulations governing this industry. The new Broadband Policy is expected to allow VSATs to become more affordable and competitive which should boost the growth of this reliable medium for wide area networking.

3.5 PROPERTY DEVELOPMENT AT ANDHERI

The construction of the Technopolis Knowledge Park (TKP) at Andheri covering 3,00,000 sq.ft. approx. with the assistance of Tata Housing Development Company, is completed (Both Phase I & II). The space is now almost fully occupied.

3.6. HUMAN RELATIONS

Industrial Relation during the year remained reasonably satisfactory. During the year the manpower count has gone down from 506 to 421. Due to change in the business mix, the Company still has excess manpower in some of its operations. It plans to introduce further VRS for bargainable category in its factory at Mahape.

3.7 INTERNAL CONTROLS AND SYSTEMS

The Company has an adequate system of internal controls to ensure that all assets are safeguarded and accounted for and business transactions are authorized and recorded. Internal Audit is carried out by an external established Audit firm. The Audit is based on an Annual Audit Plan and also includes review of adequacy of controls and adherence to laid down procedures and systems. A summary of important Audit observations is placed before the Audit Committee appointed by the Board and comprises three Independent Directors.

4. FINANCE AND ACCOUNTS

Though the interest burden remained at a high level, the Interest costs declined marginally by 8% on an annualized basis as compared to the previous accounting period. This decline was due to reduction of interest rates.

The Company had an aggregate amount of Rs.427.26 lakhs as deposits from Public, shareholders and employees as on 30th September 2004. These include deposits amounting to Rs.8.96 lakhs from 90 depositors, which had matured but had neither been claimed nor renewed by depositors as on 30th September 2004.

In accordance with the Provisions of Investor Education Protection Fund (Awareness and Protection of Investor) Rules 2001, an amount of Rs.0.68 lakhs unclaimed deposits with interest were transferred during the year to the Investor Education and Protection Fund.

5. ISO 9001: 2000 CERTIFICATION

The Company has received ISO 9001- 2000 certification in October 2004 for its factory at Mahape.

6. COMMUNITY INITIATIVES

In keeping with the Tata Group's business philosophy of helping the communities in which it operates, the Company has provided education to under privileged children in Municipal schools.

7. SUBSIDIARY COMPANY

During the year, the Company has subscribed Rs.5 lakhs (representing 83.33% of the voting power) to the Share Capital of Tatanet Broadband Wireless Private Limited (now known as Tatanet Broadband Wireless Limited).

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

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.

Pursuant to the requirement 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

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

Mr.K. A. Mahashur was re-appointed Whole-time Director of the Company with effect from 1st September 2003 for a period of 5 years.