

**NELCO LIMITED**

**A TATA Enterprise**



**63<sup>rd</sup> Annual Report**  
**2004-2005**

## NELCO LIMITED

### 63rd Annual Report 2004-2005

<b>Chairman Emeritus :</b>	R. N. Tata
<b>Board of Directors :</b>	M. N. Bhagwat (Chairman)
	B. B. Dubash
	R. R. Bhinge
	V. K. Deshpande
	P. K. Ghose (Appointed w.e.f. 28.07.2005)
	S. Ramakrishnan (Appointed w.e.f. 31.10.2005)
	K. A. Mahashur (Executive Director)
	Z. J. Engineer (Executive Director)
<b>Company Secretary :</b>	S. B. Mule
<b>Bankers :</b>	Bank of India, Mumbai. Allahabad Bank, Mumbai. Union Bank of India, Mumbai. Caylon Bank, Mumbai.
<b>Solicitors :</b>	Mulla & Mulla and Craigie, Blunt & Caroe.
<b>Auditors :</b>	N. M. Rajji & Co., Mumbai.
<b>Registered Office</b>	Francysters Cybernetics Centre, 3rd Floor, Eucharistic Congress Building No. III, 5, Convent Street, Colaba, Mumbai – 400 039.
<b>Share Registrars :</b>	Tata Share Registry Limited Army & Navy Building, 148, Mahatma Gandhi Road, Mumbai - 400 001. Tel.: 56568484 Fax: 56568494 Website: www.tatashare.com

# NELCO LIMITED

Sixty-third annual report 2004-05

**NELCO LIMITED**

## NOTICE

The SIXTY THIRD ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Thursday, 22<sup>nd</sup> December 2005 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 year ended 30<sup>th</sup> September 2005 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. M. N. Bhagwat, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. P.K. Ghose who was appointed as Director of the Company by the Board of Directors with effect from 28<sup>th</sup> July 2005 to fill the casual vacancy caused due to the death of Mr. Virendra Singh and who holds office under Section 262 of the Companies, 1956 (the Act) up to the date of the 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 the provisions of Section 257 of the Act.
4. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution.  
"RESOLVED that in accordance with the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, and further to resolutions in this matter passed at the Annual General Meetings of the Company held on August 11, 2000 and September 18, 2002, the Agreements dated August 11, 2000 and September 18, 2002, the remuneration payable to Mr. Z. J. Engineer, Whole-time Director, including the minimum remuneration payable to him in case of loss or inadequacy of profit, for the balance period of his tenure from 1st April, 2005 to 31st May 2005 as set out in the draft of the Supplementary Agreement to be entered into by the Company with Mr. Z. J. Engineer, as placed before this Meeting be and is hereby approved with liberty to the Board of Directors or a Committee thereof, to alter and vary the terms and conditions of the said Supplementary Agreement, in such manner as may be agreed to between the Directors and Mr. Z. J. Engineer."
5. To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution.  
"RESOLVED that in accordance with the Provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, the Company hereby approves of the re-appointment of Mr. Z. J. Engineer, as the Whole-time Director of the Company for a period of 5 years from June 1, 2005 upon the terms and conditions including the terms of remuneration set out in the draft Agreement submitted to this meeting and for identification signed by the Chairman thereof, which Agreement is specifically sanctioned with liberty to the Board of Directors to enhance, alter and vary the terms and conditions of the said reappointment and/or Agreement in such manner as may be agreed to between the Board of Directors and Mr. Z.J. Engineer"
6. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution;  
"RESOLVED THAT the consent of the Company be and is hereby accorded under Section 293 (1) (a) and other applicable provisions, if any, of the Companies Act, 1956 to the Directors of the Company for creation of Legal Mortgage First Charge pari-passu on its Immovable property (Leasehold) situated at Plot EL-6 TTC Industrial Area, Electronics Zone, MIDC, Mahape, Navi Mumbai – 400 710 in the State of Maharashtra, together with power to take over the management and concern of the Company in certain events in favour of UTI Bank Limited and The Zoroastrian Co-operative Bank Limited (hereinafter referred to as "the Lenders") to secure the due repayment, discharge by the Company of their respective Term Loans of Rs. 4 Crores each together with interest, additional interest, liquidated damages, commitment charges, premia on pre-payment, costs, charges, expenses and all other monies, payable under the Letters of Sanction/ Memorandum of terms and conditions as amended from time to time.  
"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to finalise with the lenders the agreements, deeds, documents for creating the mortgage and/or charge as aforesaid and to accept or make any alterations/variations to the terms and conditions and to do all such acts, deeds, matters and things as may be necessary or expedient for giving effect to this Resolution."
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. 3 to 6 set out above and the relevant details in respect of item no.2, 3, 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 **Thursday, 1st December 2005 to Wednesday, 21st December 2005** (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, 31<sup>st</sup> October 2005

## Registered office:

Francysters Cybernetic Centre,  
3<sup>rd</sup> Floor, Eucharistic Congress Building No.III,  
5, Convent Street, Colaba, Mumbai – 400 039.

## 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. 3 to 6 of the accompanying Notice dated 31<sup>st</sup> October 2005.

### Item No. 3

Mr. P.K. Ghose was appointed a Director of the Company, liable to retire by rotation, with effect from 28<sup>th</sup> July 2005 to fill the casual vacancy caused due to the death of Mr. Virendra Singh. Under Section 262 of the Companies Act, 1956 Mr. P.K. Ghose holds office until the date up to which Mr. Virendra Singh, in whose place he was appointed, would have held office, namely till the date of the forthcoming Annual General Meeting. A notice under Section 257 of the Act has been received from a member signifying his intention to propose the appointment of Mr. P.K. Ghose as a Director of the Company. Mr. Ghose is an Honours Graduate in Commerce, a CWA and CS. He is an Aluminae of the Advance General management Programme of CEDEP, France. Currently he is in the employment of Tata Chemicals Limited as Chief Financial Officer. It is in the interest of the Company to continue to avail of the experience and guidance of Mr. P.K. Ghose.

The Board commends the Resolution for acceptance by the Members. None of the Directors Except Mr. Ghose is concerned or interested in this Resolution.

### Item Nos. 4 & 5

Mr. Z. J. Engineer (the appointee) was appointed as a Whole-Time Director of the Company for the period of five years with effect from 1<sup>st</sup> June 2000 on the terms and conditions as approved by the Shareholders at the Annual General Meeting of the Company held on 11<sup>th</sup> August 2000.

The Department of Company Affairs has vide notification dated January 16, 2002, amended Schedule XIII to the Act, to provide that minimum remuneration payable to the Managing/Wholetime Directors in case of loss or inadequacy of profits, should be approved by the Special Resolution to be passed at the General Meeting of the Company and the validity of this Resolution would be for a period not exceeding three years.

In terms of the above notification, the terms of appointment of Mr. Engineer were revised by the Board of Directors at its meeting held on 30<sup>th</sup> July 2002 with effect from 1<sup>st</sup> April 2002 and the revised terms were approved by the Shareholders at the Annual General Meeting held on 18<sup>th</sup> September 2002.

The said approval of the members for the revised remuneration was valid till 31<sup>st</sup> March 2005. Since, the original appointment of Mr. Engineer as Wholetime Director was up to 31<sup>st</sup> May 2005, it is necessary to obtain the approval of the Share Holders for the payment of remuneration for the remaining period of two (2) months i.e. April and May 2005.

The details of remuneration for the period 1<sup>st</sup> April 2005 to 31<sup>st</sup> May 2005 are as follows:

#### (a) Salary :-

A salary in the scale of Rs.30, 000/- - Rs.1, 00,000/- per month with authority to the Board, which expression shall include a Committee thereof to fix his salary within the above scale from time to time. The annual increment will be merit-based and take into account the Company's performance.

#### (b) Personal Performance Allowance: - to be paid at the discretion of the Board annually based on performance criteria.

#### (c) Perquisites and Allowances: -

(i) Perquisites and allowances like accommodation (furnished or otherwise) or house rent allowance in lieu thereof; house maintenance allowance, together with reimbursement of expenses/allowances for utilities such as gas, electricity, water, furnishings, repairs, servants, society charges and property tax; medical reimbursement, medical/accident insurance, leave travel concession for Director himself and his family; club fees etc, and such other perquisites and allowances in accordance with the Rules of the Company or as may be agreed to by the Board of Directors and the Whole-Time Director such perquisites and allowances will be subject to a maximum of 125% of his annual salary.

(ii) For the purpose of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income-tax rules, wherever applicable. In the absence of any such Rules, perquisites shall be evaluated at actual cost. Provision for use of the Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.

(iii) Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund, to the extent these either singly or together are not taxable under the Income Tax Act. Gratuity payable as per the rules of the company and encashment of leave at the end of the tenure shall not be included in the computation of limits for the remuneration or perquisites aforesaid.

#### (d) Minimum Remuneration: -

Notwithstanding anything to the contrary herein contained, where in any financial year, during the currency of the tenure of the Whole-time Director, the profits of the company are nil or are inadequate, the company will pay the Whole-time Director remuneration by way of salary, personal performance allowance, perquisites and allowance as specified above.

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The existing term of Mr. Engineer expired on 31<sup>st</sup> May 2005. The tenure of Mr. Engineer being beneficial to the Company, the Board of Directors at its Meeting held on 29<sup>th</sup> April 2005, reappointed Mr. Z. J. Engineer as Whole-Time Director of the Company with effect from 1<sup>st</sup> June 2005 subject to the approval of the Shareholders of the Company. The main terms and conditions of his re-appointment are as under:-

1. **Period of Agreement:** From: 1<sup>st</sup> June 2005  
To : 31<sup>st</sup> May 2010
  2. **Designation:** Whole-Time Director
  3. **REMUNERATION:**
    - (a) **Salary :-**  
A salary in the scale of Rs.30, 000/- - Rs.1, 00,000/- per month with authority to the Board, which expression shall include a Committee thereof to fix his salary within the above scale from time to time. The annual increment will be merit-based and take into account the Company's performance.
    - (b) **Personal Performance Allowance:** - to be paid at the discretion of the Board annually based on performance criteria.
    - (c) **Perquisites and Allowances:** -
      - (i) Perquisites and allowances like accommodation (furnished or otherwise) or house rent allowance in lieu thereof; house maintenance allowance, together with reimbursement of expenses/allowances for utilities such as gas, electricity, water, furnishings, repairs, servants, society charges and property tax; medical reimbursement, medical/accident insurance, leave travel concession for Director himself and his family; club fees etc, and such other perquisites and allowances in accordance with the Rules of the Company or as may be agreed to by the Board of Directors and the Whole-Time Director such perquisites and allowances will be subject to a maximum of 125% of his annual salary.
      - (ii) For the purpose of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income-tax rules, wherever applicable. In the absence of any such Rules, perquisites shall be evaluated at actual cost. Provision for use of the Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.
      - (iii) Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund, to the extent these either singly or together are not taxable under the Income Tax Act. Gratuity payable as per the rules of the company and encashment of leave at the end of the tenure shall not be included in the computation of limits for the remuneration or perquisites aforesaid.
    - (d) **Minimum Remuneration:** -  
Notwithstanding anything to the contrary herein contained, where in any financial year, during the currency of the tenure of the Whole-time Director, the profits of the company are nil or are inadequate, the company will pay the Whole-time Director remuneration for a period not exceeding 3 years by way of salary, personal performance allowance, perquisites and allowance as specified above.
  4. The Whole-Time Director so long as he function as such undertakes not to become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future without the prior approval of the Central Government and his Agreement shall cease and determine upon the contravention of this undertaking.
  5. The Whole-time Director shall not be entitled to supplement his earnings with any buying or selling commissions.
  6. The Whole-time Director is being appointed by virtue of his employment in the Company and his appointment is subject to the provisions of Section 283(1)(l) of the Act.
  7. If at any time the Whole-time Director ceases to be a Director of the Company for any cause whatsoever, he shall also cease to be Whole-time Director in terms of the Agreement and the Agreement shall forthwith terminate.
  8. If at any time the Whole-time Director ceases to be the Whole-time Director for any cause whatsoever, he shall also cease to be a Director of the Company.
  9. The terms and conditions of the said appointment and/or agreement may be enhanced, altered or varied by the Board of Directors, as it may in its discretion deem fit within the maximum amounts payable to the Whole-time Director in accordance with Schedule XIII to the Companies Act, or any amendments made hereafter in this regard.
  10. Either party may terminate the Agreement by giving to the other party six months' notice or the Company paying six months' remuneration in lieu thereof.
- Pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions read with Schedule XIII if the Act, the terms of remuneration of the Whole-Time Director are now being placed before the Members for their approval.
- The draft of the Supplementary Agreement referred to Resolution at Item No. 4 and the draft Agreement referred to Resolution at Item No. 5 between the Company and Mr. Z. J. Engineer are available for inspection by members of the Company at its Registered Office between 11.00 a.m. and 1.00 p.m. on any working day of the Company.

Mr. Z. J. Engineer is concerned or interested in resolution at Item Nos. 4 & 5 of the Notice.

This may be also treated as an abstract of the draft of the Agreement and terms of appointment of Mr. Z. J. Engineer pursuant to Section 302 of the Act.

The Board commends the Resolutions for acceptance by the Members.

Additional information relevant to the said appointment of the Whole-time Director as per Notification dated January 16 2002 issued by the Department of Company Affairs is as follows: -

#### General Information:

- Nature of Industry :** Electronics Industry.
- Date of expected date of commencement of commercial production :**  
The Company was incorporated on August 31, 1940 and started commercial production immediately.
- In case of new companies, expected date of commencement of activities as per project approved by financial institution appearing in the prospectus:** Not applicable.
- Financial performance based on given indicators** – as per published audited financial results for the year ended 30<sup>th</sup> September 2005.
- Export performance and Foreign Exchange earned for the financial year ended 30<sup>th</sup> September 2005:** The company's earnings in Foreign Exchange were Rs. 1092.82 lakhs for the financial year ended 30<sup>th</sup> September 2005.
- Foreign investments or collaboration, if any:** Security and Surveillance Technology Transfer from Eagle Telonics, USA.; Avtron Technology from Serck Control ,USA. Skyedge Platform from Gilat of Israel

#### Information about the Whole-Time Director:

- Background details: -  
Mr. Z. J. Engineer aged 60 years is an Associate Member of the Industrial Engineering (AMIE) and been with the Company for more than 25 years. Prior to joining the Company, he was with the Tata Power Company Limited, R&D division as Development Assistant (Total Experience more than 35 years). In view of Mr. Engineer's experience and knowledge of the electronics industry and his association with the Company, it is desirable that the company should continue to avail of his experience and guidance.
- Past Remuneration drawn :-

#### During the Financial year ended 30<sup>th</sup> September 2005 – Rs...25.70 lakhs\*.

\* does not include contribution to PF and Superannuation Funds.

#### 3. Job Profile and suitability

Mr. Z. J. Engineer is the Executive Director, VSAT Division since June 1, 2000, responsible for Marketing Sales and Profitability of the Tatanet Division. He is responsible for operations and affairs of the company pertaining to his area. Taking into consideration his qualification and expertise in relevant field, the Executive Director is best suited for the responsibilities currently assigned to him by the Board of Directors.

#### 4. Remuneration proposed:

Salary	In the scale of Rs.30,000/- to Rs.1, 00,000/- per months*
Personal Performance Allowance	To be paid, at the discretion of the Board or Remuneration Committee, annually based on performance criteria.
Perquisite Allowances **	Up to 125% of salary
Minimum Remuneration In case of inadequacy of Profits during any Financial year.	Salary, perquisites & allowances and Personal Performance Allowance as mentioned above for a period not Exceeding 3 years.
* Salary Rs. 72,000 per month with effect from 1-4-2005	
** Does not includes Company's contribution to Provident, Superannuation, Gratuity Funds and Leave Encashment.	

- Comparative remuneration profile with respect to industry.. Size of the company, profile of the position and person:** Taking into consideration the size of the company, the profile of the Whole-time Director, the responsibilities shouldered by him and the industry benchmarks, the remuneration proposed to be paid is commensurate with the remuneration packages paid to similar senior level appointees in other companies.
- Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel, if any:** Besides the remuneration proposed, the Whole-time Director does not have any other pecuniary relationship with the company and its managerial personnel.



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### Other information

1. Reasons for loss or inadequate profits : Profitability was impacted due to factors that have impact on the operating costs. In addition, the debt levels were on the higher side.
2. Steps taken by the Company to improve performance:
  - (a) Improving customer focus and marketing.
  - (b) Increasing productivity and process improvements.
  - (c) Enlarging subscription base into related customer segments and deeper geographies.
  - (d) Efforts to reduce debts through improved NWC management.
  - (e) Addressing the adjacent markets through alliances and expansion of products and services.
3. Expected increase in productivity and profits in measurable terms. The Company expects to sustain its improvements in productivity and profits through various measures stated above.

### Item No. 6

The Company has, from time to time, borrowed funds from the Banks to meet its requirements of capital expenditure and working capital.

At the Sixty First (61<sup>st</sup>) Annual General Meeting of the Company held on 19<sup>th</sup> August 2003, a Resolution was passed under Section 293(1) (a) of the Act for creation of Legal Mortgage First Charge pari-passu on its Immovable property (Leasehold) situated at Plot EL-6 TTC Industrial Area Electronics Zone, MIDC, Mahape, Navi Mumbai – 400 710 in the State of Maharashtra, to secure term Loan of Rs. 10 Crores sanctioned by UTI Bank Ltd.

During the financial Year 2004 - 2005, the Company has borrowed Rs. 4 Crores from The Zoroastrian Co-operative Bank Limited and received letter from UTI Bank Limited sanctioning term Loan of Rs. 14 Crores.

To secure the above borrowings, the Company has been requested by the Banks to create Legal Mortgage on the aforesaid immovable property of the Company in their favour ranking First Charge pari-passu. As the documents to be executed between the banks and the Company may contain the power to take over the management of the Company in certain events, it is necessary to pass a resolution under Section 293 (1) (a) of the Act, for creation mortgages as stated above.

Since the Company has already created Legal Mortgage in favour of UTI Bank Ltd in the year 2003 for its earlier Rupee Term Loan of Rs. 10 Crores as per the approval of the 61<sup>st</sup> Annual general Meeting of the Company held on 19<sup>th</sup> August 2003, the Members' consent is being obtained to the extent of additional term Loan of Rs. 4 Crores of UTI Bank.

By Order of the Board of Directors.

S.B.Mule  
Company Secretary

Mumbai , 31<sup>st</sup> day of October 2005

### Registered Office:

Francysters Cybernetics Center, 3<sup>rd</sup> floor,  
Eucharistic Congress Building No.III,  
5, Convent Street, Colaba, Mumbai – 400 039.

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 the Director	Mr. M. N. Bhagwat	Mr. P.K. Ghose	Mr. Z. J. Engineer
Date of Birth	4 <sup>th</sup> June 1932	3 <sup>rd</sup> Sept. 1950	30 <sup>th</sup> July 1945
Date of Appointment	31 <sup>st</sup> January 2001	28 <sup>th</sup> July 2005	1 <sup>st</sup> August 2000
Expertise in specific Functional Area	Over 40 years Experience in Engg. & Electronics Industries and Gen Management	Possess Expertise and Experience in Finance.	Experience and knowledge of the electronics industry
Qualifications	B.E.(Mechanical & Electrical) and Gold Medalist. M. S. Mechanical Engineering from University of Illinois, USA. Diploma in Business Business Management	Honours Graduate in Commerce, a CWA and CS. Aluminae of the Advance General management Programme of CEDEP, France	An Associate Member of the Industrial Engineering (AMIE).
Directorships held in other Companies (excluding Private Limited and Foreign Companies)	-TAL Mfg. Solutions Limited -Walchand Capital Limited. -Kennametal Widia India Limited. -Honeywell Automation India Limited. -Technopolis Knowledge Park Limited. -Nelito Systems Limited.	N.A.	-Technopolis Knowledge Park Ltd. -Tata Power Broadband Limited. -Nelito Systems Limited.
Chairman/Member of the Committee of the Boards of other companies on which he is a Director	-Walchand Capital Limited. Chairman-Audit Committee. -TAL Mfg.Sol. Limited Chairman-Audit Committee. Member- Rem.Com. -Kennametal Widia Ind. Limited. Chairman- Audit Committee. Member-Rem.Com. -Honeywell Automation Ind. Ltd. Chairman-Rem.Com. Member - Audit Committee.	N.A.	-Tata Power Broadband Limited. Member-Audit Committee



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## DIRECTORS' REPORT

### To the Members

The Directors present their Sixty Third Annual Report together with the Audited Statement of Accounts for the year ended 30th September 2005.

### 1. FINANCIAL RESULTS

(Rupees in lakhs)

The Summarised financial results are Indicated below:-

	<b>For the 12 Months period ended 30.09.2005</b>	<i>For the 18 Months period ended 30.09.2004</i>
Sales and other Income.	<b>13993.14</b>	16730.24
Profit for the year after Depreciation	<b>474.50</b>	(1419.29)
Less: Deferred Revenue Expenditure (Voluntary Retirement Scheme)	<b>(421.09)</b>	(653.78)
Profit before tax.	<b>53.41</b>	(2073.07)
Add/(Less) 1. Fringe Benefit Tax	<b>(31.50)</b>	-
2. Provision for Tax	<b>4.08</b>	216.97
Profit after tax	<b>25.99</b>	(1856.10)
Add: Balance brought forward from last year	<b>(1634.35)</b>	158.75
Transfer from Debenture Redemption Reserve	-	63.00
Transfer from General Reserve	<b>878.34</b>	-
Balance available for appropriation	<b>(730.02)</b>	(1634.35)
Balance carried to Balance Sheet	<b>(730.02)</b>	(1634.35)

### 2. DIVIDEND

Due to Inadequacy of profit, 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 are avoided and the entire material is provided as a composite and comprehensive document.

### 4. BUSINESS SEGMENTS

The current business operation is structured along two businesses segments. In addition, Property Development at Andheri, Mumbai, is a major activity for the Company.

#### 4.1 Automation and Control (ISD):

ISD is further sub structured along the following line of businesses:

##### a. Strategic Electronics (SED):

This division provides products, systems and services to Defense and Paramilitary Organizations for Security and Surveillance, such as unattended ground sensors (UGS), Security systems, Global Positioning Systems (GPS) etc. It also provides Integration and sub-contract services to Prime Defence Contractors.

##### b. Supervisory Control and Data Acquisition (SCADA):

This division provides products, systems and services for Supervisory Control and Data Acquisition systems and Energy Management Systems to Utilities, Railways, Oil and Gas production etc.

##### c. Drives Systems and Traction Electronics:

The Drives group provides integrated AC & DC drives systems and related services for Metal, Mining, Power, Paper and Process industries for energy optimization, control and automation.

The Traction group provides Power and Auxiliary converters to Indian Railways for their 3- phase locomotives.

#### 4.2 Tatanet Network Systems :

This division provides management of network connectivity services over VSAT (Very Small Aperture Terminals using satellite communication technology) for large and medium Corporate, Broking Houses, and small and medium enterprises. It also serves as a turnkey supplier and systems integrator for specific VSAT projects of Government and PSU undertakings.

#### 4.3 Property Development:

This activity consists of development of part of the property at Andheri with the assistance of Tata Housing Development Company Limited (THDC).

## 5. FINANCIAL OVERVIEW

During the year under review, i.e. FY 2004-05 (12 months), the Company achieved a significant turn around and made a huge improvement in Operating Revenues and Profits against the disappointing performance in the previous period of 18 months. The income from Operations has risen from Rs. 131.8 cr. (18 months period) to Rs. 135.7 cr. The Company achieved Profit for the current year (before VRS expenditure) of Rs. 4.75 cr. as against a loss of Rs. 14 cr. in the previous period. The profit after tax at Rs. 26 lakhs for FY 04-05 is a big recovery from the loss of Rs. 18.56 cr. in the previous period.

The Company's debt has been reduced from Rs. 99 cr. at the end of the previous period to Rs. 90 cr. in spite of increased investment, activities and Operations. The Net Working Capital (NWC) has been brought down to 50% as against 85% in the previous period. With reduction in debt and also with an improvement in cost of funds, the interest burden has been reduced by 36% over the previous period on an annualized basis.

## 6. AUTOMATION AND CONTROL (ISD)

### Financial Highlights :

During the year ISD delivered a considerably improved performance against that for the previous period (PP) of 18 months, in terms of Orders, Operating Revenues, Profit and Working Capital Management. It achieved a Revenue of Rs. 89 cr. (PP : Rs. 73 cr.) and secured new orders of Rs. 125 cr. (PP Rs. 77 cr.). Orders and Operating Revenue have registered an increase of 62% and 24% respectively. The Operating profit (before Interest and VRS) has risen from a loss of Rs.4 cr. to Rs.11.4cr. profit in the current year. Also, there has been a significant improvement of 33% in the NWC reduction over that in the previous period.

### Operations :

The release of much awaited UGS Order along with Spares by the Ministry of Defence in the last quarter of the year under review and execution thereof by 30<sup>th</sup> September 2005, resulted into a significant improvement both in the top line and Operating Profit. The SED continues to receive orders on Global Positioning System (GPS) from the Ministry of Defence.

As a result of SED's tie-up with Thales of France, SED executed an order related to manufacture and supply of Low Power Jammers (LPJ) to the Army in the year under review. SED is expecting to receive and execute further orders of strategic importance, e.g. LPJ, Advance Jammers (ADJ), communications Electronics Warfare Systems (CEWS), and Mobile Intercept Platform (MIP) related to the Indian Army through this alliance based on successful performance during the current financial year. Nelco's team is involved in design, integration, and testing of these state of art systems.

During this Financial Year 2004-05, the SCADA Division has secured a major order from Jaipur Vidyut Vikas Nigam for Electrical Distribution Automation.

The Drives Systems Group achieved significant growth over the previous year, both in terms of Orders and Revenue. Significant orders were received from Tata Steel, SAIL, Bhilai, IISCO etc. during the year. The Group also executed a large Export Order for MV Drives for a Cement Plant in the Gulf and a Test Bench for Suzlon.

The pace of response for the Traction Electronics Group was slow from the market for the year under review. However, the Group is pursuing fresh business with Railways which, it expects will result in Orders and Revenue in the current year and in the years ahead.

### Outlook :

The Indian economy is expected to sustain its growth with increased capital investments in the industrial, infrastructure and security markets. The sectors served by the Division have made tremendous strides specially in the last few years to compete in the global markets and also in India against global competition. There is thus an increased emphasis on quality, cost and automation.

With the continued emphasis on increased surveillance and securing of the borders, budget outlays are being made leading to an increased demand for SED products and services. In addition, greater involvement of the private sector is also being encouraged. Based on the successful installation of UGS along the critical border, SED is most hopeful of securing further orders for MoD for UGS to secure these sensitive borders.

With the unbundling of power sector, there is a greater need for SCADA systems and Energy Network Management with the emphasis on reducing losses, automated billing, network management and power monitoring. The division will continue to see significant growth of products and services provided by them.

The demand for the Drives system is growing due to growth in the served industries and to address the increased cost of energy. Due to growth in industrial activities, Railways are witnessing an increased movement of goods leading to increased demand of locomotives. It is expected that demand of these products and systems will rise considerably due to the increased manufacturing of locos by Indian Railways in the current and in the years ahead.