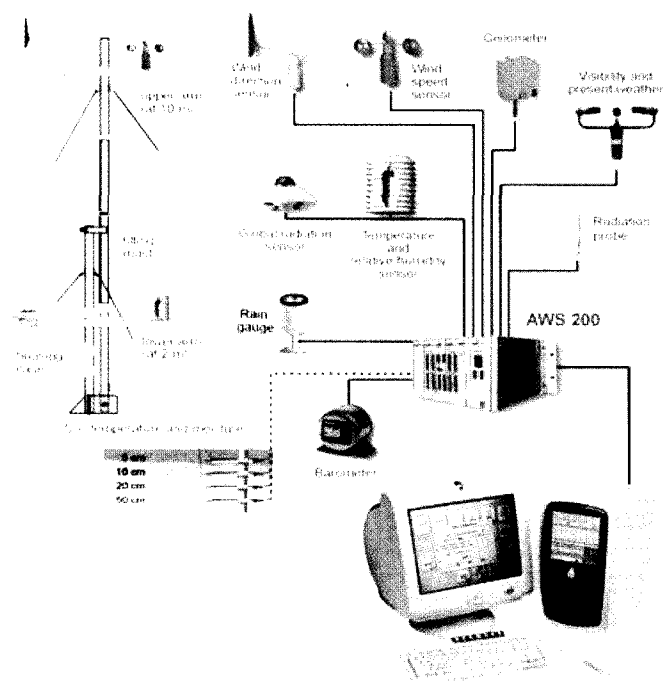


NELCO LIMITED

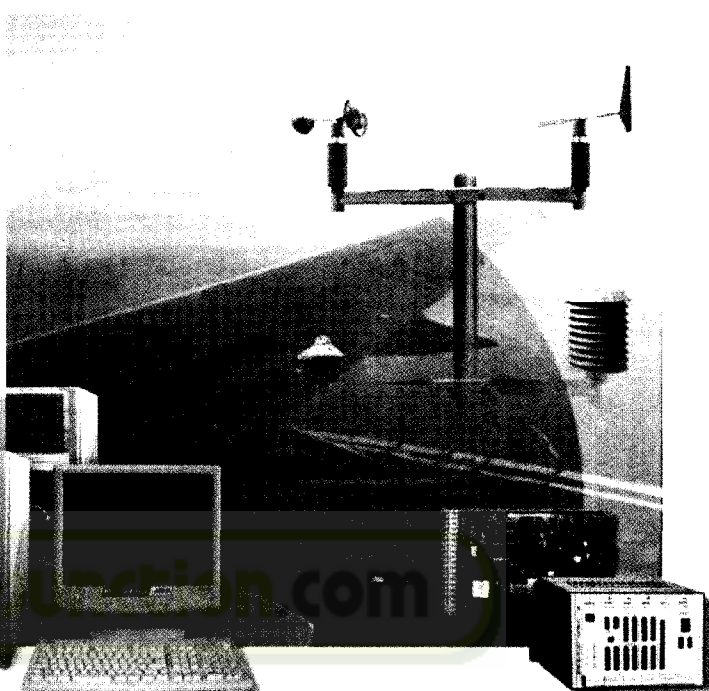
A **TATA** Enterprise



64th Annual Report 2005-2006

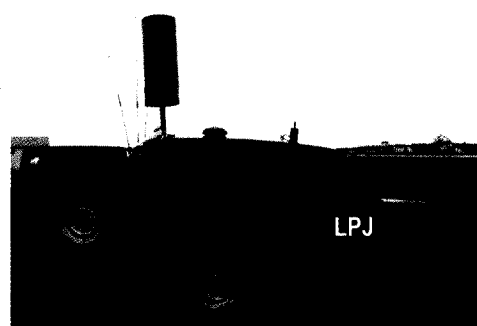
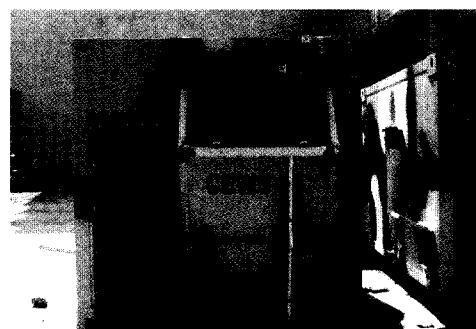
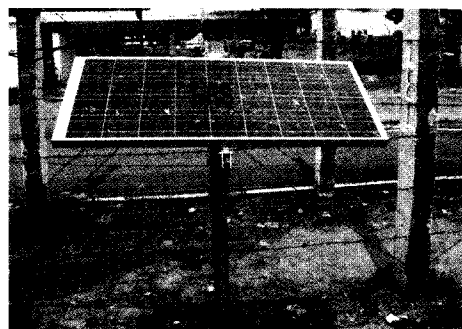


Automatic Weather Monitoring System



- EFS - Electric Fence System
- UGS - Unattended Ground Sensors
- CEWS - Communications Electronics Warfare Systems
- LPJ - Low Power Jammers

EFS



NELCO LIMITED

64th Annual Report 2005-2006

Chairman Emeritus :	R. N. Tata
Board of Directors :	M. N. Bhagwat (Chairman) B. B. Dubash R. R. Bhinge V. K. Deshpande P. K. Ghose S. Ramakrishnan Amulya Charan (Appointed w.e.f. 25.01.2006) Lt. Gen. Davinder Kumar (Retd) (Appointed w.e.f. 17.11.2006) K. A. Mahashur (Executive Director) Z. J. Engineer (Executive Director)
Company Secretary :	K. D. Ghag
Bankers :	Bank of India, Mumbai. Allahabad Bank, Mumbai. Union Bank of India, Mumbai. Calyon Bank, Mumbai.
Solicitors :	Mulla & Mulla and Craigie, Blunt & Caroe.
Auditors :	N. M. Raiji & Co., Mumbai.
Registered Office	Francysters Cybernetics Centre, 3rd Floor, Eucharistic Congress Building No. III, 5, Convent Street, Colaba, Mumbai – 400 001.
Share Registrars :	TSR Darashaw Limited 6-10, 1st floor, Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011. Tel.: 022-66568484 Fax: 022-66568494 Website: www.tsrdarashaw.com

NELCO LIMITED

Sixty-fourth annual report 2005-06

NELCO LIMITED

NOTICE

The SIXTY FOURTH ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Friday, 22nd December 2006 at 4.00 p.m. at Bombay House Auditorium, 24, Homi Mody Street, Mumbai – 400 001 to transact the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 30th September 2006 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 Auditors and fix their remuneration.

SPECIAL BUSINESS

4. To appoint a Director in place of Mr. S. Ramakrishnan, who was appointed a Director of the Company by the Board of Directors with effect from 31st October 2005 to fill the casual vacancy caused due to the resignation of Mr. F. A. Vandrevalla and holds office upto the date of this Annual General Meeting in terms of Section 262 of the Companies, 1956; but being eligible offers himself for appointment.
5. To appoint a Director in place of Mr. Amulya Charan, who was appointed as an Additional Director of the Company by the Board of Directors with effect from 25th January 2006 and holds office upto the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956; but being eligible offers himself for appointment.
6. To appoint a Director in place of Lt. Gen. Davinder Kumar (Retd), who was appointed as an Additional Director of the Company by the Board of Directors with effect from 17th November 2006 and holds office upto the date of this Annual General Meeting in terms of Section 260 of the Companies Act, 1956; but being eligible offers himself for appointment.
7. To consider, and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

“RESOLVED that in supersession of the Resolution No. 8 passed at the 44th Annual General Meeting of the Company held on 26th May 1986 and pursuant to the provisions of Section 163 and other applicable provisions, if any, of the Companies Act 1956 (including any statutory modification or re-enactment thereof for the time being in force) (“the Act”), the Company hereby approves, that the Register of Members, Index of Members, Register and Index of Debentureholders and copies of all the Annual Returns prepared under Section 159 of the Act along with other documents required to be annexed thereto under Section 161 of the Act and other applicable provisions, be kept at the office of TSR Darashaw Limited, Registrars and Share Transfer Agents, at 6-10, 1st Floor, Haji Moosa Patrawala Industrial Estate, 20, Dr. E. Moses Road, Mahalaxmi, Mumbai - 400 011.”

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. Proxies in order to be effective, should be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than 48 hours before the meeting.
- (b) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in regard to the special business as set out in Item Nos. 4 to 7 above and the relevant details in respect of the Item Nos. 2, 4, 5 and 6 pursuant to Clause 49 of the Listing Agreements with the stock exchanges, are annexed hereto.
- (c) The Register of Members and Share Transfer Books of the Company will remain closed from Monday, 11th December 2006 to Friday, 22nd December 2006 (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.
- (e) 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 risk.

By Order of the Board of Directors

K. D. Ghag
General Manager – Legal &
Company Secretary

Mumbai, 17th November 2006

Registered office:
Francysters Cybernetics Centre,
3rd Floor, Eucharistic Congress Building No.III,
5, Convent Street, Colaba,
Mumbai – 400 001.

EXPLANATORY STATEMENT

The following Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 (the 'Act'), sets out all material facts relating to the business mentioned in Item Nos. 4 to 7 of the accompanying Notice dated 17th November 2006.

Item No. 4

Mr. S. Ramakrishnan was appointed a Director of the Company by the Board of Directors, with effect from 31st October 2005 pursuant to Article 124 of the Articles of Association of the Company to fill the casual vacancy caused due to the resignation of Mr. F. A. Vandrevale. Under Section 262 of the Act, Mr. Ramakrishnan holds office until the date upto which Mr. Vandrevale would have held office, namely till the date of this 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. Ramakrishnan as a Director of the Company.

Mr. Ramakrishnan is presently, Executive Director of The Tata Power Company Limited and represents the Board of various Tata Group companies. He has been associated with the Tata Group for over 30 years and during his long tenure has handled a multitude of national as well as international projects. His rich and varied experience will be of immense help to the Board and the Company.

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

Item No.5

Mr. Amulya Charan was appointed as an Additional Director of the Company by the Board of Directors, with effect from 25th January 2006 pursuant to Article 125 of the Articles of Association of the Company. Under Section 260 of the Act, Mr. Amulya Charan holds office upto the date of this 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. Amulya Charan as a Director of the Company.

Mr. Amulya Charan is presently, Vice President-Finance of The Tata Power Company Limited and represents the Board of various Tata Group companies. He has been associated with the Tata Group for over 12 years and has worked for various industries prior thereto. His rich and varied experience will be of immense help to the Board and the Company.

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

Item No. 6

Lt. Gen. Davinder Kumar (Retd) was appointed as an Additional Director of the Company by the Board of Directors, with effect from 17th November 2006 pursuant to Article 125 of the Articles of Association of the Company. Under Section 260 of the Act, Lt. Gen. Davinder Kumar (Retd) holds office up to the date of this 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 Lt. Gen Davinder Kumar (Retd) as a Director of the Company.

Lt. Gen Davinder Kumar (Retd) served the Indian Army for almost 40 years and is the recipient of Param Vishisht Seva Medal, Vishisht Seva Medal and Bar. He is specialist in Network Design and Implementation and has conceived, designed and fielded a large variety of communication and computer networks for the Indian Army. His rich and varied experience will be of immense help to the Board and the Company.

The Board commends the Resolution for acceptance by the Members. None of the Directors except Lt. Gen Davinder Kumar (Retd) is concerned or interested in this Resolution.

NELCO LIMITED

Sixty-fourth annual report 2005-06

NELCO LIMITED

Item No. 7

Under the provisions of the Companies Act, 1956 ("the Act"), certain documents such as the register and index of members, registers and indexes of debenture holders and bondholders and copies of all annual returns prepared under Section 163 of the Act have to be kept at the Registered Office of the Company. However, these documents can be kept at any other place within the city, town or village in which the Registered Office is situated, with the approval of the Shareholders.

These records were kept at the office of the Company's Registrar and Share Transfer Agents, TSR Darashaw Limited (formerly Tata Share Registry Limited) at Army & Navy Building, 148, M. G. Road, Mumbai 400001 pursuant to the Resolution No. 8 passed at the Company's Annual General Meeting held on 26th May 1986.

TSR Darashaw Limited has informed the Company that they have shifted their office premises from Army & Navy Building, 148, M. G. Road Mumbai 400 001 to new premises at 6-10, Haji Moosa Patrawala Industrial Estate, Dr. E. Moses Road, Mahalaxmi, Mumbai 400 011.

The approval of the Shareholders is therefore sought by Special Resolution for the Registres and Indexes of Members, Debenture holders and Bond holders and copies of Annual Returns prepared by the Company under Section 159 of Act together with copies of certificates and documents required to be annexed thereto to be kept at 6-10 Haji Moosa Patrawala Industrial Estate Dr. E. Moses Road, Mahalaxmi, Mumbai 400 011. The time for inspection of the aforesaid documents by the Shareholders or such persons as are entitled to inspection will be between 2 p.m. and 4 p.m. on any working day except Saturdays and when the Registers and Books are closed under the provisions of the Act or the Articles of Association of the Company. A copy of the Special Resolution at Item No. 7 shall be given in advance to the Registrar of Companies, Maharashtra, Mumbai.

None of the Directors is concerned or interested in this Resolution.

By Order of the Board of Directors

K. D. Ghag
General Manager – Legal &
Company Secretary

Mumbai, 17th November 2006

Registered office:

Francysters Cybernetics Centre,
3rd floor, Eucharistic Congress Building No.III,
5, Convent Street, Colaba,
Mumbai – 400 001.

**Details of the Directors seeking Appointment/Re-appointment at the Annual General Meeting.
(Pursuant to Clause 49(IV)(G) of the Listing Agreement)**

Name of the Director	Mr. B. B. Dubash	Mr. S. Ramakrishnan	Mr. Amulya Charan	Lt. Gen. Davinder Kumar (Retd)
Date of Birth	29 th October 1936	19 th February 1949	21 st September 1948	23 rd September 1946
Date of Appointment	6 th December 1985	31 st October 2005	25 th January 2006	17 th November 2006
Expertise in specific Functional Area	Mr. Dubash has rich and varied experience in Shipping, Stevedoring and General Management.	Mr. Ramakrishnan joined the Tata Administrative Services in 1972. He has been associated with the Tata Group for over 30 years and has handled a multitude of national as well as international projects.	Mr. Charan has an overall experience in various industries, ranging from consumer goods, international marketing, joint venture promotion, automotive components, information and technology, telecom and power sectors.	Lt. Gen. Davinder Kumar (Retd) served the Indian Army for almost 40 years and is the recipient of Param Vishisht Seva Medal, Vishisht Seva Medal and Bar. He is a specialist in Network Design Implementation and has conceived, designed and fielded a large variety of communication and computer networks for the Indian Army.
Qualifications	B.Com	Bachelor of Technology (Mechanical Engineering) from IIT, Madras and a Post Graduate Diploma in Business Administration from IIM, Ahmedabad.	Bachelor of Engineering (Mechanical Engineering) and a Post Graduate Diploma in Business Administration from IIM, Ahmedabad.	Masters Degree in Arts, M. Phil in Defence Studies and Masters in Engineering.
Directorships held in other public companies (excluding private limited and foreign companies)	Tata Advanced Material Ltd. COSCO India Shipping Co. Ltd. Oriental Flora Tech India Ltd. Trans Ocean Shipping Agency Ltd. Trans Impex Ltd. Darabshaw B. Cursetjee's Sons Shipping Co. Ltd.	THDC Ltd. Tata Projects Ltd. Avaya GlobalConnect Ltd. The Tata Power Co.Ltd. Tata Power Trading Company Ltd. Powerlinks Transmission Ltd. Af-Taab Investment Company Ltd. North Delhi Power Ltd. Maithon Power Ltd. Automotive Stampings & Assemblies Ltd.	Tata Power Trading Company Ltd. Panatone Finvest Ltd. Af-Taab Investment Company Ltd. Maithon Power Ltd. Rajuvalika Investment Ltd. PTC Ltd.	None
Committee positions held in other companies	None	Audit Committee THDC Ltd. Tata Projects Ltd. Avaya GlobalConnect Ltd. Powerlinks Transmission Ltd. Tata Power Trading Company Ltd. Automotive Stampings and Assemblies Ltd. Shareholders'/ Investors' Grievance Committee The Tata Power Co.Ltd.,	Audit Committee Tata Power Trading Company Ltd. Maithon Power Ltd.	None
No. of shares held	Nil	Nil	Nil	Nil

NELCO LIMITED

Sixty-fourth annual report 2005-06

NELCO LIMITED

DIRECTORS' REPORT

To the Members

The Directors present their Sixty Fourth Annual Report together with the Audited Statement of Accounts for the year ended 30th September 2006.

1. FINANCIAL RESULTS

The summarised financial results are indicated below:-

	(Rupees in Million)	
	For the year ended 30.09.2006	For the year ended 30.09.2005
Sales and other Income	1185.41	1399.31
Profit for the year after Depreciation	75.02	47.45
Less: Deferred Revenue Expenditure (Voluntary Retirement Scheme)	(36.46)	(42.11)
Profit before tax	38.57	5.34
Add/(Less) 1. Fringe Benefit Tax	(5.88)	(3.15)
2. Provision for Tax	(1.60)	0.41
Profit after tax	31.09	2.60
Add:Balance brought forward from last year	(73.00)	(163.44)
Transfer from General Reserve	-	87.83
Balance available for appropriation	(41.91)	(73.00)
Balance carried to Balance Sheet	(41.91)	(73.00)

2. DIVIDEND

In view of the inadequacy of profit and accumulated losses, 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 business segments. In addition, Property Development at Andheri, Mumbai, is a major activity for the Company.

4.1 Automation and Control: Industrial System Division: (ISD)

ISD is further sub-structured along the following lines of business (LoB).

a. Strategic Electronics (SE)

This LoB provides products, systems and services to Defence and Paramilitary Organisations 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. Energy Network Management and SCADA Systems

This LoB provides engineered solutions in Energy Management Systems, Supervisory Control and Data Acquisition (SCADA) systems, Distribution Management Systems and Automatic Data Logging Systems with applications in Power, Oil and Gas industry, Railways, etc.

c. Traction Electronics

This LoB provides major Power Electronics equipment and maintenance services to the Indian Railways for their freight and passenger 3 Phase AC Locomotives.

d. Drives Systems

This LoB provides integrated AC & DC drives systems and related services for Metal, Mining, Power, Paper and Process industries for energy optimisation, control and automation.

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 Corporates, Broking Houses and small and medium enterprises. It provides solutions like bandwidth on demand, Internet over VSAT, interactive distance learning, IP multicast and digital streaming to industry segments like manufacturing and distribution, pharmaceuticals, banking and financial services, media, tourism, logistics and to government and public sector units.

4.3 Property Development

This activity consists of development of part of the property at Andheri with the assistance of THDC Limited.

5. FINANCIAL OVERVIEW

The total income, during the year under review, amounted to Rs. 1185.41 mn. as against Rs. 1399.31 mn. in the previous year. Profit from the operations and property development, i.e. before the Voluntary Retirement Scheme (VRS) has improved from Rs. 47.45 mn. in the previous year to Rs. 75.02 mn. in the year under review. The net profit has improved to Rs. 31.09 mn. as against Rs. 2.60 mn. in the previous year.

During the year under review, with improved working capital management, the average borrowings were at lower levels than in the previous year and the interest cost has been brought down to Rs. 79.29 mn. (previous year Rs. 94.02 mn.)

6. AUTOMATION AND CONTROL DIVISION (ISD)**Financial Highlights**

During the year, ISD achieved a Revenue of Rs. 724.57 mn. (previous year Rs. 887.36 mn.) with an operating profit of Rs. 71.12 mn. (previous year Rs. 178.97 mn.). Last year, ISD's Revenue included major orders from Ministry of Defence; however, it should be noted that such orders from large defence programmes are not finalised and executed uniformly on an annual basis.

Operations:

The SE LoB, based on its association with Thales of France, secured another contract for supply and services for Jammers for the Indian Army, a large part of which was executed during the year. In addition to offering UGS, GPS and Electric Fence System to the Defence sector, the LoB has begun addressing opportunities in the Homeland security through a broader range of products and solutions. Specialised requirements of the Defence sector, related to Weather Monitoring systems, Data Acquisition through radio links etc. are also being pursued.

During the year, the SCADA LoB made significant progress on the execution of the order received from Jaipur Vidyut Vitran Nigam Limited, for the Electrical Distribution Management System under the Accelerated Power Development Reform Programme (APDRP) of the Power Ministry. The LoB continues to address growing Power Distribution SCADA requirements and has received and executed several orders in this sector. New application areas are also being explored to broaden the markets with an initial success of SCADA system for light house to Shipping sector.

The Traction Electronics LoB secured and executed a major order for Traction Converters for the 3 Phase AC locomotives of the Indian Railways. This LoB is well poised for receiving further such orders in line with the procurement programme of Indian Railways.

The Drives LoB secured and executed several orders from steel majors like Tata Steel, SAIL, IISCO, etc. The LoB had put an increased focus on medium voltage high KW rating AC drives used for energy conservation for applications in the cement, water and power industries. The LoB, however, continues to face heavy pressure on margins, due to intense competition from multinationals and also input cost escalations. The ISD intends to carry out necessary actions to minimise the adverse impact of these factors on the operations of ISD.

Outlook:

The Indian economy is expected to sustain its growth with increased capital investments in defence, infrastructure, utility and homeland security markets.

NELCO LIMITED

Sixty-fourth annual report 2005-06

NELCO LIMITED

In light of current global and internal security concerns, the Indian government has allocated increased budget for modernisation of security equipments at airports, railways, refineries, defence establishments and other government buildings. Also, the private sector has been looking at integrated security solutions to provide safety and security to its establishments and people.

With the trifurcation of State Electricity Boards (SEB's) there is a greater need for SCADA systems and Energy Network Management by the SEB's with the emphasis on reducing losses, automated billing, network management and power monitoring. In view thereof, this LoB will continue to see significant growth of products and services provided by them.

Due to growth in industrial activities, Railways are witnessing an increased movement of people and goods leading to growing demand of energy efficient 3 Phase AC locomotives. The demand of the products and services supplied by the Traction Electronics LoB will rise considerably due to the increased production of the 3 Phase AC locos by Railways in the current and in the years ahead.

The ISD is also implementing initiatives towards growth and Operational Excellence. The growth initiatives are to enhance product portfolio through alliances in order to enlarge the served markets in core segment and address the adjacent markets. Actions have been initiated to reduce debt and the high interest burden alongwith strengthening of controls and improvements in business processes.

Risks, Threats and Concerns:

ISD operating revenue and margins in the years are directly dependent on the market growth, competition and input cost. SE's major business is depended on projects from MoD and other Government Sectors, which are prone to longer gestation periods and impact of policy changes. In addition, the served industry is cyclic in nature which impacts sustained growth. Growth initiatives to pursue adjacent markets face entry barriers from existing players and require certain gestation period to deliver results.

There is a threat of rising inflation due to increase in energy and raw material costs. These factors can impact input costs of both products and services.

Though the Company is making every effort to reduce debt through improved NWC management, the likely rise in interest rate may have adverse impact on profitability.

ISD has initiated actions to mitigate these risks and threats through improved customer focus, productivity, cost control and overall business process improvements.

7. TATANET DIVISION

Financial Highlights

During the year under review, Tatanet division delivered a considerably improved performance against that of the previous year in terms of Operating Revenues and Profit. The division achieved a 25% growth in Revenue at Rs. 447.80 mn. (previous year Rs. 357.04 mn.). The Operating Profit has risen from Rs.36.15 mn. to Rs.47.03 mn.

Operations

During the year under review, the division successfully launched the Tata Indicom VSAT services brand and booked orders for close to 4000 VSAT's out of which 2750 VSAT's have already been added to the network. Corporate Wide Area Networks (WAN's) continue to dominate the share of customers served. With the rising stock market activity, the Broking segment has also seen rapid expansion. The division has forayed into newer segments to provide service to the un-served and under-served markets. The division now has almost 80 channel partners and channel sales are expected to grow substantially in the coming years.

The division has leveraged the latest GILAT SkyEdge inducted last year, to successfully address a variety of market segments, increasing its potential for rapid growth.

Tatanet has been ranked among the top 3 players for the financial year 2005-2006 by the well known industry publication "Voice & Data".

Outlook

As **Tata Indicom VSAT Services**, Tatanet leverages the significant brand presence of Tata's in Telecom. As a member of the TIEBU (Tata Enterprise Business Unit of Tata Indicom) alliance, the division addresses a blue chip corporate in India with a unified proposition.