

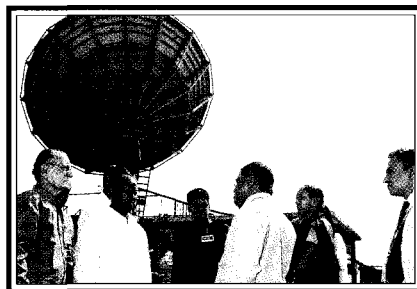
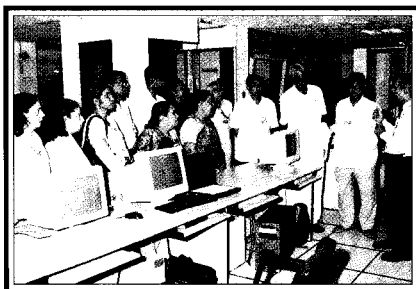
NELCO LIMITED

A TATA Enterprise



**65th Annual Report
2006-2007**

Shareholders' Visit to Factory : 2006



NELCO LIMITED

65th Annual Report 2006-07

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

Lt. Gen. Davinder Kumar (Retd)

P. R. Menon (w.e.f. 20.07.2007)

K. A. Mahashur – *Executive Director*

Z. J. Engineer – *Executive Director*

Company Secretary :

K. D. Ghag

Bankers

Bank of India

Allahabad Bank

Union Bank of India

Calyon Bank

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.

Works & Facilities

Plot EL-6, Electronic Zone, TTC Industrial Area,
MIDC, Mahape, Navi Mumbai - 400 710.

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

SALES OFFICES

Mumbai

3rd Floor, Eucharistic Congress Building III,
5, Convent Street, Colaba, Mumbai - 400 001.

Bangalore

3rd Floor, No.15-17-19,
Sri Lakshmi Complex,
St. Mark's Road,
Bangalore - 560 001.

Chennai

1st Floor, No.2, Real Towers,
51& 52, Royapettah High Road,
Mylapore, Chennai - 600 004.

Delhi

702,703, Vikram Tower,
16, Rajindra Place,
New Delhi - 110 008.

Jamshedpur

Kashi Kunj Road No.2,
Contractors Area,
Bistipur, Jamshedpur - 831 001.

Kolkata

Trust House, 1st floor,
32-A, Chittaranjan Avenue,
Kolkata - 700 012.

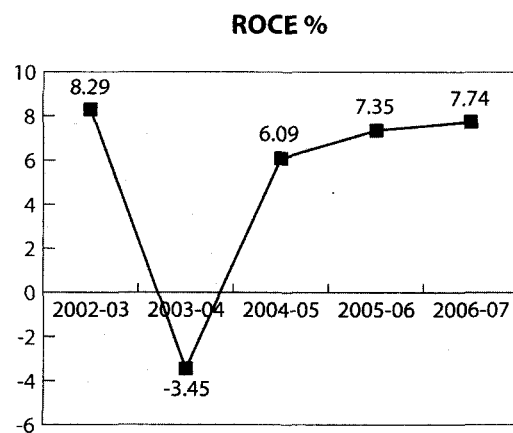
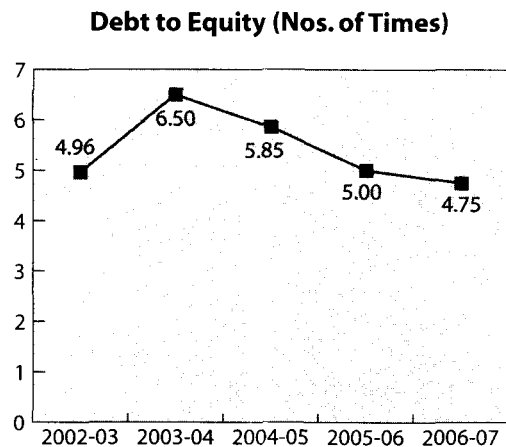
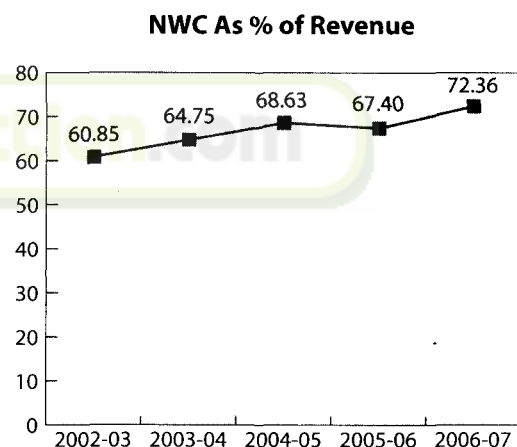
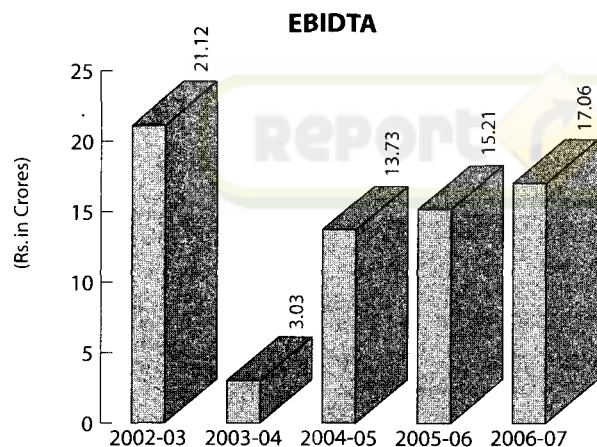
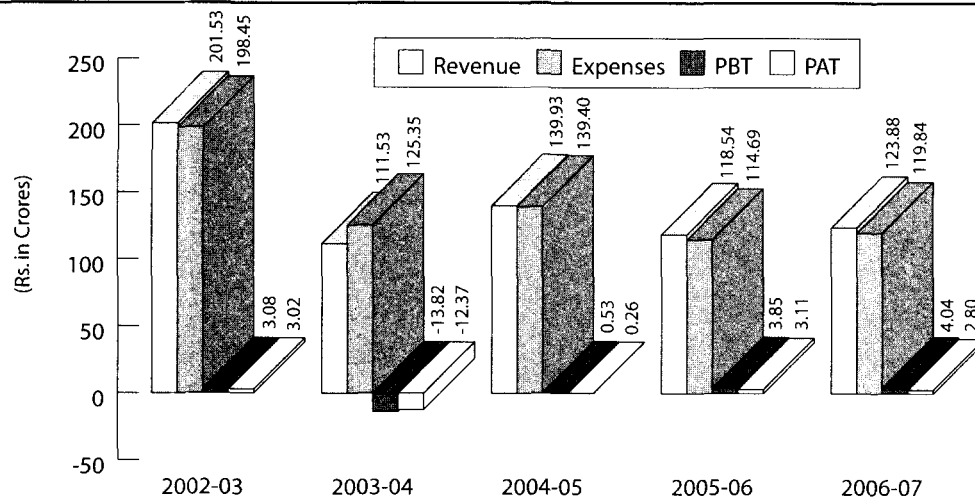
Secunderabad

Plot No.65, Paigah Colony,
behind Anand Theatre,
Off Sardar Patel Road,
Secunderabad - 500 003.

NELCO LIMITED

Sixty-fifth Annual Report 2006-07

Financial Highlights



For the purpose of comparison, the figures are calculated on annualised basis wherever necessary.

NOTICE

The SIXTY FIFTH ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Friday, 31st August 2007 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 6 months period ended 31st March 2007 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. R. R. Bhinge who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. V. K. Deshpande who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

5. To appoint a Director in place of Mr. P. R. Menon who was appointed as an Additional Director of the Company by the Board of Directors with effect from 20th July 2007 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 consider and, if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:-
“RESOLVED that Mr. M. N. Bhagwat, a Director liable to retire by rotation, who does not seek re-election, be not re-appointed a Director of the Company.”
RESOLVED FURTHER that the vacancy, so created on the Board of Directors of the Company, be not filled.”

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. 5 & 6 above and the relevant details in respect of Item Nos. 2, 3 and 5, 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 August 2007 to Thursday, 9th August 2007 (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, 20th July 2007

Registered office:

Francsters 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. 5 and 6 of the accompanying Notice dated 20th July 2007.

Item No.5

Mr. P. R. Menon was appointed as an Additional Director of the Company by the Board of Directors with effect from 20th July 2007 pursuant to Article 125 of the Articles of Association of the Company. Under Section 260 of the Act, Mr. Menon 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. Menon as a Director of the Company.

Mr. Menon is presently, Managing Director of The Tata Power Company Limited and represents the Board of several Tata Group companies. Mr. Menon is a Chemical Engineer from IIT, Kharagpur and has 36 years of professional experience in the industry. 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. Menon is concerned or interested in this Resolution.

Item No.6

In accordance with the provisions of Section 256 of the Act and the Articles of Association of the Company, Mr. M. N. Bhagwat retires by rotation and has not sought re-election. It has been decided by the Board that the vacancy so created on the Board of Directors of the Company should not be filled at present and commend the resolution for approval.

Mr. M. N. Bhagwat was appointed as a Director of the Company since 31st January 2001 and was appointed as Chairman of the Board effective 28th September 2001. He is also the Chairman of the Audit Committee, Shareholder's/Investor's Grievance Committee and Remuneration Committee. The Board has placed on record its appreciation of the contribution made by Mr. Bhagwat to the Company. Members' attention is invited to the Directors' Report.

By Order of the Board of Directors

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

Mumbai, 20th July 2007

Registered office:

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

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Details of Directors seeking re-appointment at the Annual General Meeting.

(Pursuant to Clause 49(IV)(G) of the Listing Agreement)

Name of the Director	Mr. R. R. Bhinge	Mr. V. K. Deshpande	Mr. P. R. Menon
Date of Birth	29 th May 1952	21 st July 1957	23 rd January 1946
Date of Appointment	29 th August 2003	30 th July 2004	20 th July 2007
Expertise in Specific Functional Area	Mr. Bhinge has over 25 year's 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 (Tata Strategic) since 1991. At present, Mr. Bhinge is Chief Executive of Tata Strategic.	Mr. Deshpande has over 20 years experience in various fields including execution of turnkey projects, plant operations, total plant solutions etc. He was associated with Tata Honeywell Limited for over 15 years in various leadership roles. At present, he is President, Enterprise & High Network Individual (EHNI) Business Unit of Tata Teleservices Limited.	Mr. Menon has a career spanning 36 years in the industry. He was the Managing Director of Tata Chemicals Limited and has also had long service with the ICI Group of Companies in India and with Nagarjuna Fertilisers Chemicals Limited in various senior positions. Presently, he is Managing Director of The Tata Power Company Limited and represents Boards of several Tata Group companies.
Qualifications	B.Tech Hons. (Electrical) from IIT, Mumbai. Post Graduation in Business Administration from IIM, Ahmedabad	Chemical Engineer, IIT, Kharagpur	Chemical Engineer, IIT, Kharagpur
Directorship held in other companies (excluding Private Limited and Foreign Companies)	Oriental Floratech India Limited Oriental Seritech Limited Tata Johnson Controls Automotive Limited Tata Autocomp Systems Limited ITEL Industries Limited Infiniti Retail Limited	TAL Manufacturing Solutions Limited	Tata Chemicals Limited Tata Services Limited Chemical Terminal Trombay Limited Tata Projects Limited Tata Industries Limited Af-Taab Investment Co. Limited Maithon Power Limited Tata Ceramics Limited Powerlinks Transmission Limited North Delhi Power Limited Coastal Gujarat Power Limited
Committee positions held in other companies	Audit Committee Tata Autocomp Systems Limited Tata Johnson Controls Automotive Limited Infiniti Retail Limited	Audit Committee TAL Manufacturing Solutions Limited	Audit Committee Tata Services Limited
No. of shares held	Nil	Nil	Nil

DIRECTORS' REPORT

To the Members

The Directors present their Sixty Fifth Annual Report together with the Audited Statement of Accounts for the 6 months period ended 31st March 2007.

1. FINANCIAL RESULTS

The summarised financial results are indicated below:-

	(Rupees in Million)
	For the Year Ended 30.09.2006
	For the Six Months Period Ended 31.03.2007
Sales and other Income	1185.41
Profit for the year after Depreciation	75.02
Less: Deferred Revenue Expenditure (Voluntary Retirement Scheme)	(36.45)
Profit before tax	38.57
Add/(Less) 1. Fringe Benefit Tax	(5.88)
2. Provision for Tax	(1.60)
Profit after tax	31.09
Add: Balance brought forward from last year	(73.00)
Balance available for appropriation	(41.91)
Balance carried to Balance Sheet	(41.91)

2. CHANGE IN FINANCIAL YEAR

The Directors have taken a decision to revert to the earlier practice of closing the financial year to end on 31st March which is, also, in line with the financial year of The Tata Power Company Limited, the holding company. With this change, the Accounts for the financial year 2006-07 are presented for a period of 6 months commencing from 1st October 2006 to 31st March 2007.

3. DIVIDEND

In view of the inadequacy of profit and accumulated losses, the Directors regret their inability to recommend any dividend for the year.

4. MANAGEMENT DISCUSSIONS AND ANALYSIS (MD&A)

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

The figures for the financial period under review are from 1st October 2006 to 31st March 2007 i.e. for a period of 6 months. Figures for the previous financial year (2005-06) are for 12 months, i.e. from 1st October 2005 to 30th September 2006.

5. BUSINESS SEGMENTS

The current business operation is structured along the following business segments:

5.1 Automation and Control : Industrial Systems Division (ISD)

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

a. Strategic Electronics (SE)

Systems and solutions for Defence and Paramilitary Organisations for Security and Surveillance, such as Intrusion Detection, Integrated Security Systems, Global Positioning Systems (GPS), Automatic Weather Monitoring Systems, Scanners, etc.

b. Energy Network Management Systems (ENMS)

Energy Management, Distribution Management, Automatic Data Logging Systems and SCADA systems for applications in Power, Oil & Gas Industry, Railways, etc.

c. Traction Electronics

Power Electronics equipment for the Indian Railways for their freight and passenger Electric and Diesel Locomotives.

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d. Drives Systems

Integrated AC & DC drives systems for Metal, Mining, Power, Paper and Process industries for energy optimisation, control and automation.

e. Building Management System

Integrated Building Management Systems including HVAC Controls, Fire Alarm, Access Controls and CCTV for comfort, energy saving and security of buildings.

5.2 Tatanet Network Systems

This division provides solutions for management of network connectivity services and internet services over VSAT's for Corporates, Banking & Financial Institutions and SME's for them to run ERP and other on-line office automation applications. It also provides solutions to manage bandwidth on demand services across industry verticals, interactive distance learning connectivity, IP multicast and digital streaming to some niche segments. In addition, the division provides turnkey Satellite Communication solutions to customers primarily in Government and Public Sector.

5.3 Property Development

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

6. FINANCIAL OVERVIEW

During the 6 months period under review, the total income was Rs.619.48 mn. as against Rs. 1185.41 mn. in the previous year. The profit from operations i.e. before the Voluntary Retirement Scheme (VRS) was Rs. 35.87 mn. as against Rs. 75.02 mn. in the previous year. The net profit earned during the period under review is Rs.14.02 mn. as against Rs.31.09 mn. in the previous year.

7. AUTOMATION AND CONTROL DIVISION (ISD)

Financial Highlights

During the 6 months period under review, ISD achieved a Revenue of Rs.440.45 mn. (previous year Rs. 724.57 mn.) with an operating profit of Rs. 80.97 mn. (previous year Rs. 71.12 mn.).

Operations

The Strategic Electronics LoB, secured an order for Unattended Ground Sensors from the Ministry of Defence (MoD) and was partially executed during the period under review. This LoB continues to focus on securing orders for Surveillance Systems and Solutions for Defence and Homeland Security including specialised applications such as Automatic Weather Monitoring and Data Acquisition using radio links, etc.

The ENMS LoB made further progress on execution of the Jaipur Vidyut Vitran Nigam Limited (JVNL) project for City Distribution Management System. In order to broaden the market reach, this LoB has developed SCADA applications for Light House Management in Shipping Industry, Hydro Power Plants and the Rural Load Management.

The Traction Electronics LoB received a major order for supply of Power Converter for 3 Phase AC Locomotives of Indian Railways. During the period under review, the LoB also supplied and successfully commissioned six power converters against an earlier order. The operational performances of these converters have been found to be superior to that of similar converters supplied by alternate suppliers to the Railways. This LoB has added to its offerings, converters for use in AC coaches and diesel locomotives to expand the served market.

The Drives LoB continues to face intense price competition from the Multinationals. During the period under review, it received a major order for supply of MV Drives with a customized solution from a large Indian engineering company.

During the period under review, the Building Management System LoB has launched systems for Integrated Building Management for the Indian realty sector such as IT parks, Hotels, Corporate Houses, etc. The Company along with its technology partner, Yamatake Corporation of Japan conducted seminars in Bangalore, Delhi and Mumbai which were well received by Users, Consultants and Contractors.

Outlook

The capital investment in the industries served by ISD continuous to show decent growth and it is expected that this growth will sustain for the foreseeable period.

In view of the increased internal security concerns, the need for Surveillance and Detection Systems for key establishments such as Airports, Railways, Defence, etc. has been growing. The Strategic Electronics LoB is well poised to utilise these growth opportunities.

With continued emphasis on reduction of Power losses, automatic billing etc., the need for Energy Network Management systems is steadily growing. With increased product portfolio, the ENMS LoB will continue to see a reasonable growth in the years ahead.

With the growth of Indian economy, the Indian Railways is witnessing a greater demand for movement of people and goods which in turn will lead to the increased demand for AC and Diesel locomotives. This increased demand augurs well for the Traction LoB which has been successful in supplying critical equipment to Railways.

With the realty sector growing faster than the industrial sector, the demand for the Building Management System is growing at a much faster pace. The growth is opening up a large market for Integrated Business Management Systems. The LoB is gearing up to secure a sizeable share of this market with the support of its technology partner.

The ISD continues to make progress towards implementation of initiatives for growth and operational excellence. The initiatives include enhancement of product portfolio through alliances to enlarge the served and adjacent markets, strengthening of controls and improvements in business processes. These actions will result in larger addressed market, efficient working capital management, cost reduction and customer satisfaction.

Risks, Threats and Concerns

ISD revenue growth and margins are directly dependent on the market growth, competition and input costs. 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. Project orders from MoD and other Government Sectors, are prone to long gestation periods and impact of policy changes.

There is a threat of rising inflation due to increase in energy and raw material costs. These factors impact input costs of both products and services. Major rise in the Rupee vis-à-vis US \$ and is likely to have some adverse impact on the project and contracts secured in foreign currency.

Though the Company is making every effort to reduce debt through improved NWC management, the continuing rise in interest costs has been and shall continue to have adverse impact on profitability.

ISD continues its actions and initiatives to mitigate these risks and threats through improved customer focus, improved Working Capital management, productivity, cost control, etc.

8. TATANET DIVISION

Financial Highlights

During the 6 months period under review, Tatanet division achieved revenue of Rs. 175.74 mn. (previous year Rs. 447.80 mn.) with an operating profit of Rs. 25.07 mn. (previous year Rs. 47.03 mn.).

Operations

Tatanet continues to be the fastest growing VSAT service provider.

The division consolidated Tata Indicom VSAT services brand and, though a late entrant in commercial VSAT business, achieved 23% share of new orders during the period under review. The VSAT installed base touched 6000 at the end of the period under review. Corporate Wide Area Networks (WAN's) dominate the share of customers served. A significant achievement in this segment is the quantum of repeat orders from the existing customers. This was made possible by consistent network performance and focused coverage of these customers.

The division continued its foray into newer segments to provide service to the unserved and under-served markets and now has access to all the 200 channel partners of VSNL. This segment is showing a good growth trend.

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 the corporate segment in India with a unified proposition. The recent addition of channel partners of VSNL adds a force multiplier to penetrate other segments.

The VSAT industry in India is growing at a rate of 22% p.a. and this pace is expected to continue in the coming years. The division has charted a strong growth plan for the years ahead to increase the number of VSAT's in the network and expects to maintain a healthy growth rate in revenue and operating profit.

Risks, Threats & Concerns

In the Telecom Industry, margins continue to be under pressure due to reactive pricing by competition and overall decline of tariff. The increasing penetration of networking services based on competing technologies also pose a threat to our current offerings. Tatanet continues to address such pressures by enlarging its subscription base and launching several new innovative product propositions.

9. PROPERTY DEVELOPMENT

The additional FSI rights pursuant to IT Park Policy of the Government of Maharashtra for additional construction on Technopolis Knowledge Park building at Andheri, Mumbai were valued and considered as stock-property under development during the previous financial year (2005-06). The construction of the additional structure with the assistance of THDC Limited will be completed during the current financial year, thereby realising the cash flows related to the above value of stock-property (inventories) under development.

NELCO LIMITED

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10. HUMAN RESOURCE MANAGEMENT

There is consistent focus on development of Human Resources (HR). HR plans have been defined with appropriate measurement indicators keeping in mind both long term goals and short term requirements. Employee Satisfaction Surveys are carried out regularly to formally assess the voice of employees.

The pressure on attracting and retaining talent continues. The Company has initiated measures like employee referral scheme, engaged more consultants and providing growth opportunity to existing employees. The Company constantly reviews facilities and benefits to enhance overall employee well being. The Performance Management system, now extended to all levels, recognizes individual and segment contribution through performance link pay thereby motivating employee ownership. The age profile of employees in our mature business is also a matter of concern. The Company has initiated a Management Resource Review exercise to help succession planning.

The Company maintained cordial industrial relations during the year. The total manpower employed during the year was 340.

11. 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 authorised and recorded. An external established audit firm carries out internal audit. This audit is based on an Annual Audit Plan and includes regular reviews by the Audit Committee to ensure adequacy of controls and adherence to laid down procedures and systems. The Board also carries out Company Wide Risk Assessment and Management on a systematic and regular basis.

12. QUALITY SYSTEMS AND TATA BUSINESS EXCELLENCE MODEL (TBEM)

The Company is focused on continuous improvement through internationally recognised quality systems namely, **ISO 9001:2000** and **TL 9000** for ISD and Tatanet division respectively. Regular annual and bi-annual audit for these quality systems are conducted. In addition, the Company has adopted the Tata Business Excellence Model (TBEM) to drive improvements across all areas of operations and functions.

The trend for **TL 9000** has been encouraging and future audits would be based on the upgraded standard (**Rev 4.0**). The Company has appointed a full time senior manager to focus on quality improvements and business excellence. The Company has concluded its first external assessment on TBEM in the previous year.

13. FIXED DEPOSITS

The Company had an aggregate amount of Rs.8.86 mn. as deposits from the public, shareholders and employees as on 31st March 2007. These include deposits amounting to Rs.2.79 mn. from 145 depositors, which had matured but not claimed by depositors as on 31st March 2007

In accordance with the provisions of Investor Education Protection Fund (Awareness and Protection of Investors) Rules, 2001, unclaimed deposits with interest amounting to Rs. 0.04 mn. was transferred during the financial year 2006-07 to the Investor Education and Protection Fund.

14. SAFETY, HEALTH & ENVIRONMENT

The Company accords high priority to Health, Safety and Environment. The operations of the Company are not of hazardous nature; however, the Company takes all precautions to maintain healthy and safe environment in and around its facilities.

The employees working at the project sites are given requisite training for ensuring safety during working. Basic fire safety and awareness training programme is conducted regularly for the Company employees. There have been no incidences of any accidents reported in the past several years. The Company also has a Disaster Management System to take care of exigencies.

15. COMMUNITY DEVELOPMENT

In keeping with the Tata Group's business philosophy of helping the Communities in which it operates, the Company conducts on an ongoing basis class room training to the under privileged children in a rural school at Virar, Thane District.

16. SUBSIDIARY COMPANY

The financial statement and reports of the subsidiary company, Tatanet Services Limited (TNSL) for the financial year 2006-07 is enclosed.

Pursuant to the Scheme of Arrangement between Tata Services Limited and TNSL, approved by the Bombay High Court, the Department of Telecommunications (DoT), Government of India has transferred the CUG VSAT Commercial License in the name of TNSL with effect from 1st March 2007.

TNSL has now commenced commercial operations. The revenue of TNSL for the year ended 31st March 2007 is Rs. 148.18 mn.

Statement relating to Management Discussion and Analysis, describing the Company's objectives, estimates and expectations may constitute forward looking statements within the meaning of applicable laws and regulations. Actual results may differ from those either expressed or implied.