

**25th
ANNUAL
REPORT
2003-2004**



PRECISION ELECTRONICS LIMITED

PRECISION ELECTRONICS LIMITED

- Board of Directors** : BRIG. JOGINDER SINGH (Retd.) - Nominee BIFR
SHRI ASHOK KANODIA - Managing Director
SHRI PRADEEP KANODIA - Executive Director
- Company Secretary** : Ms. MEENU CHAUHAN
- Registered Office** : D-1081, NEW FRIENDS COLONY
NEW DELHI-110 065
- Corporate Office & Works** : D-10, SECTOR - 3,
NOIDA - 201 301 (U.P.)
- Branch Office** : 134, BIPLABI RASH BEHARI BASU ROAD,
(CANNING STREET), CALCUTTA - 700 001.
- Auditors** : M/S. RAJENDRA K. GOEL & COMPANY
NEW DELHI

PRECISION ELECTRONICS LIMITED

Regd. Office: D-1081, New Friends Colony, New Delhi-110 065

NOTICE OF THE 25th ANNUAL GENERAL MEETING

NOTICE is hereby given that the 25th Annual General Meeting of Precision Electronics Ltd. will be held on Saturday, the 25th September, 2004 at 3.00 P.M. at India International Centre, 40 Max Mueller Marg, New Delhi-110 003 to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Directors' Report, Audited Balance Sheet as on 31st March 2004 and the Profit and Loss A/c for the year ended on that date and the Auditors' Report thereon.
2. To reappoint Shri Ashok Kanodia who retires by rotation and being eligible, offers himself for reappointment
3. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting, and to fix their remuneration. M/s Rajendra K. Goel & Co. Chartered Accountants, the retiring Auditors hold office till conclusion of this meeting and are eligible for reappointment.

SPECIAL BUSINESS :

4. To consider, and, if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution** :

“**RESOLVED** that pursuant to the provisions of Section 314 and all other applicable provisions, if any, of the Companies Act, 1956, the consent of the Company be and is hereby accorded to the promotion as 'President' and increase in remuneration of Mr. Nikhil Kanodia to a gross salary of Rs. 45,000/- per month w.e.f. 1st October, 2004. He will also be eligible for reimbursement of expenses incurred in discharge of his duties and for official purposes including of business promotion and all other expenses based on actuals”

5. To consider, and, if thought fit, to pass, with or without modification(s), the following resolution as a **Ordinary Resolution**:

“**RESOLVED** that in accordance with Section 257 of the Companies Act, 1956 Mr. S. C. Sharma be and is hereby appointed as a Director of the Company liable to retire by rotation.”

6. To consider, and, if thought fit, to pass, with or without modification(s), the following resolution as a **Ordinary Resolution**:

“**RESOLVED** that in accordance with Section 257 of the Companies Act, 1956 Mr. Rahul Goenka be and is hereby appointed as a Director of the Company liable to retire by rotation.”

By Order of the Board
For **Precision Electronics Limited**

Place : New Delhi

Date : 31-08-04

(Meenu Chauhan)
Company Secretary

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Notes :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member of the company.
2. Proxies in order to be effective should be duly completed and signed in the enclosed form and must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
3. Members are requested :
 - To kindly notify the change of address, if any, to the Company /The Registrar & Transfer Agent/ depository participants.
 - To bring their copy of Annual Report.
 - To deposit duly completed Attendance slip at the meeting.
4. The Register of Members and the Share Transfer Books of the Company will remain closed from 24th September, 2004 to 25th September, 2004 (both inclusive).
5. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their queries to the Managing Director / Company Secretary of the Company at-least seven days before the date of the meeting so that the information required may be made available at the meeting.
6. Explanatory Statement(s) pursuant to Section 173(2) of the Companies Act, 1956 pertaining to the business contained in items 4 above is annexed. All the documents referred to in the aforesaid notice are open for inspection at the Registered office of the Company between 11.00 A.M. to 1.00 P.M. on all the working days except Saturday up-to the date of the Annual General meeting.
7. The Company's shares have been activated for dematerialization both with National Securities Depository Ltd. and Central Depository Services Ltd. Members can hold their shares in dematerialized form through any of the depositories as above.
8. Trading in Company's Shares which is suspended for want of fresh listing approval on reduction and Consolidation of Share Capital of the Company pursuant to BIFR Order is expected to be restored shortly.
9. The particulars of directors to be re-appointed/ appointed at the meeting are given in the Corporate Governance Section, of this Annual Report.

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EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

In respect of Item No. 4

Mr. Nikhil Kanodia, son of Mr. Ashok Kanodia, Managing Director of the Company was appointed as 'Vice-President' by way of a Board resolution dated 23rd December, 2002. Mr. Nikhil Kanodia is a post graduate in Electrical & Computer Engineering from Carnegie Mellon University of USA. After his education, he worked with M/s Fujitsu Network Corp in USA for more than four years in their Design & Development Dept. The performance of Mr. Nikhil Kanodia was considered commendable and accordingly your Directors are proposing to promote him as "President" of the Company and increase the remuneration to Rs. 45,000/- per month w.e.f. 1st October, 2004.

Pursuant to the provisions of section 314 of the Companies Act, 1956, for payment of such remuneration to Mr. Nikhil Kanodia, approval of Share holders by way of Special resolution passed at the General Meeting is required as Mr. Nikhil Kanodia is related to Mr. Ashok Kanodia, Managing Director of the Company.

None of the directors except Mr. Ashok Kanodia is interested or deemed to be interested in the above resolution.

Directors recommend your approval of the said resolution.

In respect of Item No.5

Mr. S.C. Sharma aged 51 years has done B.Com (H) and is a Chartered Accountant. He is also holding the membership of Indian Institute of Managers. He is practising as the Chartered Accountant for last 22 years. Notice under Section 257 of the Companies Act, 1956 alongwith requisite deposit has been received from a member signifying his intention to propose the candidature of Mr. S. C. Sharma as Director retiring by rotation.

He is not holding the directorship /membership of any other Board of Directors or Committee thereof.

Your directors feel that induction of Mr. S.C. Sharma in the Board of the Company shall not only strengthen the Board of Directors of the Company but also benefit the Company due to his professional qualification and expertise and as such the members are requested to approve the resolution.

None of the directors is interested in the above resolution.

Directors recommend your approval of the said resolution.

In respect of Item No. 6

Mr. Rahul Goenka aged 28 years is a Commerce graduate and MBA-Marketing and Finance from Clark University, Worcester, USA. He is having around 5 years of working experience.

At the outset of his career, Mr. Rahul Goenka occupied position in peopl.com Consultants Inc., Boston USA, Technology Solution Provider. Presently he is associated with a garment and home furnishing export unit situated at Noida.

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Notice under Section 257 of the Companies Act, 1956 alongwith requisite deposit has been received from a member signifying his intention to propose the candidature of Mr. Rahul Goenka as Director retiring by rotation.

Except being a partner in Krishna Motors, Akola, he is not holding the directorship / membership of any other Board / Committee thereof.

Your directors feel that induction of Mr. Rahul Goenka in the Board of the Company shall not only strengthen the Board of Directors of the Company but also benefit the Company due to his professional qualification and experience and as such the members are requested to approve the resolution.

None of the directors is interested in the above resolution.

Directors recommend your approval of the said resolution.

By Order of the Board
For Precision Electronics Limited

Place : New Delhi

Date : 31-08-04

(Meenu Chauhan)
Company Secretary



PRECISION ELECTRONICS LIMITED

DIRECTOR'S REPORT

To the Members of
Precision Electronics Ltd.,

The Directors have pleasure in presenting the 25th Annual Report on the business and operations of the Company along with the audited statements of accounts for the year ended March 31, 2004.

PERFORMANCE OF THE COMPANY

Summary of the financial results is as under:

	CURRENT YEAR (Rs. In Lac)	PREVIOUS YEAR (Rs. In Lac)
Total income	2201	2215
Total expenditure	2188	3565
Net profit / (-) loss	13	(1350)
Extraordinary Item-		
Reduction in share capital, waiver of interest & principal as per BIFR Order	7378	2
Net profit after extraordinary item	7391	(1348)
Deferred Tax Asset	420	-
Profit & Loss brought forward	(7264)	(5916)
Balance Carried forward-		
● To deferred Tax asset	420	-
● To Profit & Loss account	127	(7264)

DIVIDEND

No dividend is recommended for the financial year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review :

Company's gross sales during the current year 2003-04 were marginally lower to about Rs.2201 Lac from Rs.2215 Lac achieved during the previous year (2002-03). Your Company was able to maintain the sales due to continued demand of Primary Multiplexers and Data Cards by BSNL. The Company was able to generate a small net profit of about Rs.13 Lac before extraordinary items and taxation.

Pursuant to the financial restructuring exercise undertaken by your Company, a fully tied up rehabilitation proposal duly accepted by all the secured lenders was submitted to the Hon'ble BIFR for their approval. The Hon'ble Board sanctioned the scheme (Sanctioned scheme) vide its Order dated 14th January 2004. Implementation of the "Sanctioned scheme" has resulted in an extra-ordinary income of about Rs.7378 Lac on account of waiver of overdue interest and principal amount (Rs.6478 Lac) by the secured lenders of the Company and reduction in capital (Rs.900 Lac). With these adjustments, the carried forward loss of Rs.7264

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Lac from the previous year (2002-03) has been wiped off and a surplus of Rs.547 Lac (including deferred tax of Rs. 420 Lac) is being carried forward to the next year. During the year, net worth of your Company has turned positive and therefore the Company is not covered under section 3(1)(o) of SICA.

PCB Division :

Performance of the PCB division continues to be cause of concern due to the division incurring cash losses. Losses are less during the year under review due to increased sales of Rs.336 Lac as against Rs.288 Lac in the previous year (2002-03). Rates continue to be under pressure due to low demand and consequent overcapacity. Plant needs major investment to be able to offer PCB of specification asked by the international customers and trouble free operation. A long-term strategic view is required for this division.

Telecom Division :

Performance of the telecom division has been consistent. Sales achieved by the Telecom division in the year under review are Rs.1893 Lac as against sale of Rs.1974 Lac in the previous year (2002-03). However, due to competition and increase in cost of inputs, the profit has been lower at Rs.136 Lac as against Rs. 302 Lac in the previous year. Supply of Primary MUX with Data cards to BSNL has resulted in the strong sales performance of the division.

Capital Structure :

During the financial year 2003-04, as part of the financial restructuring package under BIFR Order, the existing paid up equity Share Capital of Rs.999.75 Lac has been reduced by 90% (to Rs.1.00 paid up for every share of Rs.10.00) on pro-rata basis. The remaining 10% of the share capital amounting to Rs. 99.975 Lac has been again consolidated to a face value of Rs. 10.00 and now stands as the paid-up capital of the Company.

As part of financial restructuring package approved by BIFR, the Company has received fresh capital of USD 1.0 million (Rs. 453.99 Lac) as fresh equity investment by a strategic investor. These funds have been utilised for clearance of dues of the secured lenders.

The above actions pursuant to the BIFR Order, after the allotment to the strategic investor will raise the capital of the company to Rs. 553.96 Lac. Thereby, the strategic investor would hold about 81.95% of the paid up capital of the company by virtue of which acquiring the management of the company.

INDUSTRIAL STRUCTURE AND DEVELOPMENTS

The Company is engaged in the business of design & manufacturing, selling and trading of Printed Circuit Board (PCB) and Telecom Transmission products. The Company caters mainly to the Industrial Electronic equipment manufacturers, Public Undertakings comprising of Bharat Sanchar Nigam Ltd (BSNL), Ministry of Defence etc and Private Telecom Service providers.

Telecom sector in the Country is growing at a rapid pace. To a large extent, this growth is led by huge demand for cellular telephony (mobile wireless) services. Service providers are in the midst of expanding their network to the remotest part of the Country. Huge investment in infrastructure creation & expansion is being undertaken by the Telecom Operators, which has made India the destination for all international infrastructure equipment suppliers. Intense competition has led to highly competitive rates being offered by the equipment suppliers. This scenario is likely to continue for few years.

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OPPORTUNITIES, THREATS, RISK & CONCERNS

OPPORTUNITIES :

Most developed and developing economies including China saw telecom market declines during the last year. Indian market is among the few in the world that has registered significant growth and the Private Operators in India have planned huge investment in their Telecom infrastructure. At the same time the Indian Armed Forces are now in the process of upgrading and modernizing their communication network to meet the operational requirement of the digitised battle space. Your Company's core strength lies in its experience and knowledge of the user requirements, the developments undertaken for customisation of products, as also the quality approvals from their respective Quality Assurance departments.

Financial Restructuring of the Company and induction of funds by the Strategic Investor has presented your company with the most significant opportunity for future growth. Company is in the process of being deregistered from BIFR. Secured debt has been settled and the unmanageable interest burden has been consequently removed. This would enable the Company to operate more efficiently and develop its business in highly competitive environment. The investor is also inducting new technology products to augment the product-mix. These products are required by both, the private operators as well as the Armed forces and are undergoing user evaluation trials.

THREATS, RISK & CONCERNS :

With all around increase in cost of inputs due to; petrol products, metals, rupee parity with the Dollar, additional educational cess imposed by the Govt on Direct and Indirect Taxes in the recent budget 2004-05, your Directors anticipate that this may adversely effect cost structure and/or selling prices of products in the domestic/international markets, thereby potentially affecting margins of the Company. Rates of copper clad laminates, a basic raw material for PCB manufacturing have gone up more than 50% as also the cost of components.

Imports of finished equipment have severely affected the IT/Telecom Hardware manufacturing industry in the Country. This has reduced the requirements of components and most of the functioning manufacturing units are in survival mode. The proposed Zero Duty regime from 2005 wherein imports of IT & Telecom related equipment would be at zero duty, pose a further challenge for the company and competition from international products would affect the Company's business.

The industry segment that your company deals in is a high technology segment wherein there is regular changes/up-gradation in technologies. This leads to low product life cycle and high level of obsolescence. Company is currently manufacturing primarily the MUX and its associated interface cards. Customer (BSNL) is demanding new generation technology products. For sustained business, PEL needs to upgrade its technology and product mix.

Substantial investment in R&D is required to compete with international suppliers, which for a small Company like ours is presently not feasible. Company's business model needs to be suitably altered to take into account this reality. Hardware equipment manufacturing for which the Company has created the infrastructure at Noida may not be viable under the circumstances.

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OUTLOOK :

Your Company's focus is the Telecom Service provider's and Defence communication space. Both the market segments are buoyant. Existing technical expertise of the Company in the wire line access product (MUX) is being enhanced with introduction of new products and technologies. Efforts are being made to enter the cellular market with new microwave radios required for intercellular connectivity.

Defence communication is the target market segment of your company. Your Company expects to increase its share of Defence business over the next three years. Design & Engineering department is being augmented to offer customised telecom solution as required by the customer.

ADEQUACY OF INTERNAL CONTROL :

The company continues to have a proper and adequate internal control procedure commensurate with its size and nature of business. The internal control system provides for laid down policy, guidelines and approval procedure. This control procedure ensures efficient use and protection of resources, compliance with established Company policy and guidelines and compliance of statutes.

The company has an internal audit, which carries out independent periodic audit. The scope of internal audit covers variety of operational and financial matters, follow up and review of implementation of recommendations made for corrective action. The prime object of such audit is to test the adequacy, effectiveness and adherence of all internal control laid down by the management and to suggest improvement. Quarterly internal audit reports are prepared for Audit committee.

HUMAN RESOURCE DEVELOPMENT :

The Company has a strong team of able and experienced staff and executives. Regular workshops are being held to update the skill set of the existing personnel as also to train fresh engineers recruited by the Company. Several training modules for transformation of work culture are being conducted. These development programs would result in continuous improvement in our capability, teamwork and total employee involvement. Relations with the employees at all level remain cordial and your Directors wish to place on record their appreciation of the co-operation and contribution made by the employees at all levels. The Company gives considerable importance to the training and development of employees. The numbers of persons employed are 136.

FINANCIAL RESTRUCTURING

The One Time Settlement proposal of the company for settlement of its dues with secured lenders and induction of funds by the strategic investor was approved by the Hon'ble Board for Industrial and Financial Reconstruction (BIFR) vide its order dated 14th January, 2004. In accordance with the 'Sanctioned Scheme', your Company has received an amount of US\$1 million from a 'Strategic Investor' and has cleared the dues of all the secured lenders during the current financial year i.e. 2004-05. The amount received has been kept as Share Application money pending allotment in separate Non-Lien account opened with UTI Bank. Upon settlement of the overall debt burden, interest cost has reduced substantially which has made operations viable and the company's net worth positive and consequently would apply for deregistration from BIFR.

REDUCTION AND CONSOLIDATION OF PAID-UP SHARE CAPITAL

As per the 'Sanctioned Scheme' the existing paid up equity Share Capital of Rs. 999.75 Lac has been reduced by 90% (to Rs. 1.00 paid up for every share of Rs. 10.00) on pro-rata basis and the remaining 10% were consolidated to face value of Rs.10.00.