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ANNUAL REPORT 2005-2006



SHILCHAR
ELECTRONICS LIMITED

**SHILCHAR
ELECTRONICS LIMITED**
ANNUAL REPORT 2004-2005

BOARD OF DIRECTORS

Mr. J.C. Shah Chairman
Mr. Alay J. Shah Managing Director
Mr. Ashesh J. Shah
Mr. O.P. Khanna
Mr. Mukesh Patel
Mr. Bhagirath Merchant
Mr. Kirtikant P.Shah

BANKERS

Bank of Baroda

AUDITORS

Naresh & Company
Chartered Accountants
2nd Floor, Citi Enclave
Opp. Polo Ground
Vadodara

REGISTERED OFFICE

Bil Road, Bil - 391 410
Dist. Vadodara, (India)

**REGISTER & TRANSFER
AGENT**

MCS LIMITED
Neelam Appartment,
88, Sampatrao Colony,
R. C. Dutt Road,
Alkapuri,
Baroda - 390 007.

TABLE OF CONTENTS	PAGE
NOTICE	1
DIRECTOR'S REPORT	3
AUDITOR'S REPORT	22
BALANCE SHEET	27
PROFIT & LOSS ACCOUNTS	28
CASH FLOW STATEMENT	29
SCHEDULES TO ACCOUNTS	30
PROXY - FORM	52



NOTICE

NOTICE IS HEREBY GIVEN THAT the Twentieth Annual General Meeting of SHILCHAR ELECTRONICS LTD., will be held on Friday, the 28th July 2006 at 10:30 A.M. at the Registered office of the Company at Bil Road, Bil - 391 410, Dist. Vadodara to transact the following business :

Ordinary Business :

1. To consider, receive and adopt the Balance Sheet as at 31st March 2006, and the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To appoint a director in place of Mr. Kirti. P. Shah who retires by rotation and being eligible, offers him self for re-appointment.
3. To appoint a director in place of Mr. A. J. Shah who retires by rotation and being eligible, offers him self for re-appointment.
4. To appoint Auditors and to fix their remuneration.

By order of the Board of Directors
For SHILCHAR ELECTRONICS LIMITED

Place: Vadodara
Date : 29th April 2006

JITENDRA SHAH
CHAIRMAN

**NOTES**

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ALSO ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY IN ORDER TO BE EFFECTIVE MUST BE RECEIVED BY THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The Register of members and Share Transfer Books of the company will remain closed from 21st July 2006 to 27th July 2006 (both days inclusive).
3. Members are requested to intimate quoting their Folio number, the change of their address, along with PIN Code Number, if any, and PAN/GIR Number with IT Ward/Range/District immediately to the Company.
4. Members who are holding Equity Shares in identical order of names in more than one Folio are requested to write to the Company to enable them to consolidate their holdings in one Folio.
5. All requests for transfer of Equity Shares and allied matters along with the relevant transfer deeds and shares certificates should preferably be sent direct to the Company.
6. Members are requested to intimate the Company of queries, if any, regarding these accounts / notice at least ten days before the Annual General Meeting to enable the Management to keep the information ready at the meeting.
7. Shareholders are requested to indicate their bank account details viz. type of account, account number, banker's name and address to enable the Company to record the mandate and forward future Dividend Warrant / refund order, etc. in such name to the Shareholders to reduce the mal-practices of theft of Warrants / Orders. Such information may please be sent to the Registered Office of the Company.

By order of the Board of Directors
For **SHILCHAR ELECTRONICS LIMITED**

Place: Vadodara
Date : 29th April 2006

JITENDRA SHAH
CHAIRMAN

**DIRECTORS' REPORT**

Your Directors have pleasure in presenting the Twentieth Annual Report on the business and operations of the Company and the Audited Accounts for the Financial Year ended 31st March 2006.

FINANCIAL RESULTS

(Rs. in lacs)

Particulars	2005-2006	2004-2005
Profit Before Interest and Depreciation	218.29	104.57
Less :		
a) Interest	35.70	10.37
b) Depreciation	40.14	35.03
Profit / Loss before tax & extra ordinary items	142.45	59.17
Interest on I.T.Refunds	0.18	5.12
Excess Provision written back	0.10	0.05
Prior year's I T Adjustments	0.55	0.24
Profit Before Taxation	142.18	64.10
Provision for Tax - Current	48.00	14.25
- FBT	2.90	0.00
- Deferred	8.16	7.47
Profit after Tax	83.11	42.38
Add :		
Balance brought forward	197.25	154.88
TOTAL	280.37	197.26
APPROPRIATION		
Proposed Dividend on Equity Share	19.07	0.00
Corporate Dividend Tax on above	2.68	0.00
Balance Carried over to next year	258.63	197.26
TOTAL	258.63	197.26



OPERATIONS

During the year under review your Company has achieved Sales of Rs. 3643.80 lacs as against Rs. 1375.10 lacs in the preceding year which higher by 164.98%

During the year under review Company has achieved sales worth Rs.1872.97 lacs towards sales of higher KVA Distribution Transformers which supported overall Sales of Company.

During the year, there was intense competitive pressure on prices and margins. There was substantial increase in steel and copper wire prices. The Company could achieve its profitability with emphasis on the aftermarket and focused product mix planning. The intensive cost reduction efforts continued during the year.

During the year your Company has successfully renewed Quality Management System ISO 9001:2000 by UL India Pvt.Ltd.

DIVIDEND

Keeping in view of profit, your directors propose to declared dividend of 5% for the financial year 2005-2006

FINANCE

During the year, working capital limits were fully utilized to procure raw material to keep up delivery to customers for timely execution of orders on hand which supported better sales in year under review. The tight controls on inventories and receivables as well alert financial management, the capital employed was reduced. Except borrowing of ECB at a cheaper rate of interest, no long term loan was taken and credit facilities from the bank for working capital were sparingly utilized.

FUTURE PROSPECTS

During the year under review the construction of new Building for manufacturing higher KVA Distribution & Power Transformers were completed. Majority of Plant & Machinery were installed in this new Building. The entire cost for setting up Building, Plant & Machineries, Testing Equipments etc. for Distribution & Power Transformers Division were capitalized during year under review.

During the year under review your Company has executed the various orders for Distribution Transformers. Techno Commercial negotiations are under progress with the Customers of said Transformers for coming year. Management is confident to achieve sales of Rs.6000 lacs (Approx.) in year 2006-2007.

Your company has initiated to purchase the entire stake of Equity Shares of M/s. Shilchar Payton Technologies Limited., held by M/s. Payton Technologies (1991) Ltd., Israel a co-promoter of investing Company at the price mutually decided. Necessary Share Purchase Agreement signed and RBI formalities completed. Your Company has started remittance of Installments to Payton – Israel for the consideration value. After acquisition of entire equity shares held by Payton – Israel, investing Company



will become wholly own Company of your Company. Company has already remitted Rs.57.39 lacs till the end of year.

Due to above arrangement, your Company has got the entire Business of Telecommunication Transformers of Shilchar Payton as all the customers of the investing company are advised to send orders on your Company.

During the year under review, your Company has purchase new land nearby existing Company for further expansion. Financial Arrangement for Project Finance is in progress with Banks / Financial Institutes.

MANAGEMENT DISCUSSION AND ANALYSIS

(a) Industry Structure and Developments

Indian Transformer market size is estimated at Rs. 10,000 Crores approximately. The entire market is met through local manufacturing Companies and there is hardly any imports. The market is likely to grow at a rate of 8 to 10% annually for coming 10 years.

The growth is mainly due to large power generation projects coming into the various parts of the Country. The electrification of ruler areas all over the Country will require many transformers and this is being funded by World Bank in many areas. The high growth in overall industries will also encourage the demand of transformers.

The present capacity in the Country is not enough to meet the growing demand trend, generating a scope for expansion.

(b) Opportunities and threats

Indian economy seems to grow at 7% supported by a smart growth in manufacturing and service sectors. Demand outlook for the year 2007 is quite positive.

The Industry has to be on guard against the growth of unorganized sectors which has increased over the last few years.

(c) Segment wise performance

The business of the Company falls a single segment i.e. "Power Transformers and related components" for the purpose of Accounting Standard AS-17.

(d) Outlook

The continued growth in the Power Sector and the improving mood in the manufacturing sector will provide growth to the Transformer Industry. Indications of the improvement in the economy are visible.



The Company expects to improve its position in the market by focusing on technologically advance product and more profitable products/market segments.

The company will continue to work in the areas of higher productivity, better efficiency and cost reductions in order to control the costs.

(e) Risk and concerns

While the overall demand for the year 2005-2006 remains good, the Company expects that there will be pressure on its margins on account of intense competition and steel price rise in the market.

The rising raw material cost (Metal) has been a nagging worry for the Industry. It may not be possible for the Company to recover the increase in material cost entirely from the customers.

(f) Internal Control system

Internal audit and other controls have found to be adequate. These are reviewed periodically by the Audit Committee and found satisfactory.

(g) Developments in human resources and Industrial relations

The Company continued to have cordial relations with all the employees. The Board places on the record its appreciation of the efforts of the employees at all levels. During the year the Company has organized several training program for the employees at different levels to boost and sharpen their skills resulted increase in their efficiency and created team work atmosphere among them.

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 as amended, is not applicable to the Company.

CORPORATE GOVERNANCE

A separate Section on Corporate Governance is included in the Annual Report and the certificate from the Company's Auditors confirming the compliances of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed thereto.

DIRECTORS

Mr. Kirti. P. Shah and Mr. A. J. Shah retire by rotation, and being eligible, offer themselves for re-appointment.



AUDITORS

The Auditors, M/s. Naresh and Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and being eligible have expressed their willingness to be re-appointed. The Company has received a Certificate from M/s. Naresh and Company to the effect that their re-appointment, if made, will be within the limit prescribed under Section (1B) of Section 224.

AUDITORS REPORT

The Auditors, in their Report, have referred to the notes forming part of the accounts. The said notes are self-explanatory.

CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

In accordance with the requirements of Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo are annexed hereto and form part of this Report.

HUMAN RESOURCES

Your Company continued its activities during the year in a cordial atmosphere with utmost co-operation amongst the employees and the Management. The Board places on record its appreciation of the efforts of the employees at all levels. The restructuring process has been well accepted by one and all who are associated with your Company and the Board hopes that this would bear fruits in the near future.

The statement of Particulars of Employees pursuant to Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is not applicable to the company.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217(2AA) OF THE COMPANIES ACT, 1956

The Directors state that :-

- (i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures ;
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of



the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period ;

- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company for that period ;
- (iv) the directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predications may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied therein. Important factors that could make a difference including raw material availability and prices thereof, cyclical demand and pricing in the Company's principal market, changes in Government regulations and tax regime, economic developments within India and the countries in which the Company conducts business and other incidental factors.

Your Directors wish to place on record their sincere appreciation for the wholehearted co-operation and support extended by its Shareholders, Investors, Bankers, Customers, Business Associates and all employees of the Company during the year under report.

For and on behalf of the Board

Place: Vadodara
Date : 29th April 2006

JITENDRA SHAH
CHAIRMAN