

Annual Report



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VXL Instruments Limited

BOARD OF DIRECTORS

D S Rao	Chairman
M V Nagaraj	Managing Director
M V Shetty	Director
Kumar Shyam	Director
J R Mundkur	Director
Ajit Shelat	Director
A Murali	Director
K Prakash	Director

OPERATION COMMITTEE

D S Rao	Chairman
M V Nagaraj	Managing Director
M V Shetty	Director
Kumar Shyam	Director
J R Mundkur	Director

AUDIT COMMITTEE

Mr K Prakash, Chairman
Mr A Murali- Member
Mr D S Rao- Member

REMUNERATION COMMITTEE

Mr Ajit Shelat-Chairman
Mr K Prakash - Member
Mr A Murali - Member

INVESTORS' GRIEVANCES COMMITTEE

Mr A Murali-Chairman
Mr K Prakash -Member
Mr M V Shetty-Member

LEGAL ADVISOR

Mr. N. Jayaraman

AUDITORS

S. Madhavan & Co.
Chartered Accountants
Bangalore

BANKERS

State Bank of India

**REGISTRAR AND SHARE
TRANSFER AGENTS**

Bigshare Services Pvt. Ltd
E-2/3, Ansa Industrial Estate
Sakivihar Road, Saki Naka,
Andheri (E), Mumbai - 400 072
Tel : 91-022-852 3474 / 856 0652
Fax : 91-022-852 5207

VXL Instruments Limited

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Sixteenth Annual General Meeting

On Wednesday,
the 25th September, 2002

at

"House of Excellence"

No. 17, Electronics City

Hosur Road, Bangalore - 561 229

at 3.30 p.m.

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NOTICE

Notice is hereby given that the Sixteenth Annual General Meeting of the Members of the Company will be held at 3.30 pm on Wednesday, the 25th September, 2002 at the Registered Office of the Company at "House of Excellence", No.17, Electronics City, Hosur Road, Bangalore-561 229 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2002 and the Profit and Loss Account for the year ended on that date, together with the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in place Mr. Kumar Shyam who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place Dr. Ali Jawad, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors and to authorize the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT Mr. K Prakash who was appointed as Additional Director and who holds office up to the date of the ensuing Annual General Meeting be and is hereby appointed as 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 as a Special Resolution:

"RESOLVED THAT pursuant to and in accordance with Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable

provisions, if any, of the Companies Act, 1956, or any re-enactment or modifications thereof, and subject to the approval of the Central Government, if required, the approval of the members be and is hereby accorded to the appointment of, and the remuneration payable to, Mr. M V Shetty as Whole time Director of the Company to be in charge of Product Engineering, Finance and Administration with effect from 1.10.2002 for a period of five years and that the terms and conditions be as mentioned below:

- i. Salary of Rs.35,000/- (Rupees Thirty five Thousand only)
- ii. Commission: In addition to salary, perquisites and other allowances, commission based on the net profit of the Company computed in the manner laid down in Section 309(5) and other applicable provisions, if any, of the Companies Act, 1956. Such Commission shall be of such percentage and of such amount as the Board of Directors of the Company may determine keeping in view of the performance of the Company in respect of each financial year.
In addition to salary and commission, the following shall be allowed to Mr. M V Shetty.
- iii. Housing: Mr. M V Shetty shall be entitled to rent free furnished residential accommodation.
In case no accommodation is provided by the Company, Mr. M V Shetty shall be entitled to House Rent Allowance of Rs.10,000/- per month.
- iv. Reimbursement of gas, electricity, water charges and furnishings.
- v. Reimbursement of medical expenses for self and family as per Company rules.
- vi. Leave Travel Concession for self and family as per Company rules.
- vii. Fees of clubs subject to maximum of two clubs.
- viii. Personal Accident Insurance, as per Company rules.

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ix. Provision of car for business and personal purposes.

x. Telephone at the residence.

Mr. M V Shetty will be paid the following perquisites which shall not be included in the computation of the ceiling on the remuneration in the event the Company has no profits or its profits are inadequate in any financial year during the aforesaid period.

xi. Contribution to Provident Fund, Superannuation Fund or Annuity Fund as per Company Schemes to the extent these either single or put together are not taxable under the Income tax Act, 1961.

xii. Gratuity payable at the rate of half a month's salary for each completed year of Service.

xiii. Earned/privilege leave: On full pay and allowances, as per rules of the Company. Leave encashment also as per Company rules.

RESOLVED FURTHER THAT subject to the provisions of the Sections 198, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956, the remuneration payable to Mr. M V Shetty, by way of salary, perquisites, commission and other allowances shall not exceed five percent of the net profits of the Company and ten percent of such net profits of the Company for all such managerial personnel of the Company together in that financial year.

RESOLVED FURTHER THAT notwithstanding anything here above stated, where in any financial year, the Company has incurred loss or its profits are inadequate, the Company may pay to the Mr. M V Shetty remuneration by way of salary, perquisites, and other allowances not exceeding the limits specified under Section II of Part II of Schedule XIII of the Companies Act, 1956.

RESOLVED FURTHER THAT in the event of any statutory amendment or modifications or relaxation by the Central Government to Schedule XIII to the Companies Act, 1956, the Board of Directors be and is hereby authorised to

vary or increase the remuneration, including the salary, commission, perquisites, allowances, etc. within such prescribed limit or ceiling and any Agreement between the Company and Mr. M V Shetty be suitably amended to give effect to such modification, relaxation or variation without any further reference to the Company in general meeting.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take all such steps as may be necessary for the purpose of giving effect to this resolution and matters incidental thereto."

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

"RESOLVED THAT in accordance with the provisions of Section 81(1-A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to the applicable statutes or guidelines or regulations issued/as may be issued from time to time, by concerned authorities including the Reserve Bank of India/SEBI, consent of the members of the Company be and is hereby accorded to the Board of Directors of the Company (herein after referred to as 'the Board' which term shall be deemed to include any committee of Directors which the Board may have constituted to exercise its powers including the powers conferred by this resolution) to issue, offer and allot up to 20,00,000 (Twenty lakhs). Equity Shares of Rs. 10/- (rupees ten only) each of the aggregate nominal value up to Rs. 2,00,00,000/- (Rupees Two Crores only) the price of the share being such price as the Board may deem fit, subject to the reckoning of the price to be arrived at, for cash/cash equivalents and also by way of Stock Swap to provide for investment for the acquisition of stock in companies where the Company has strategic business relationships to be based on proper valuation and in terms of the prevailing relevant guidelines of SEBI/such other appropriate authorities, to any Body Corporate, Financial Institutions, Non Residents Indians, Foreigners, Overseas Corporate Bodies, Foreign Institutional Investors,

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Trusts, Mutual Funds, Promoters, their friends and associates including Offshore Mutual Funds, Strategic Allies, persons or individuals and/or any combination thereof, whether or not such Body Corporate, Financial Institutions, Non Resident Indians, Foreigners, Overseas Corporate Bodies, Foreign Institutional Investors, Trusts, Mutual Funds, Promoters, their friends and associates including offshore Mutual Funds, Strategic Allies, person or individuals are members of the Company or not, and without offering these Equity Shares on rights basis to the existing members and on such terms and conditions as may be applicable or with such modifications as the Board may decide in consultation with the proposed investors and in such branches as may be decided by the Board in its absolute discretion.

RESOLVED FURTHER THAT these shares proposed to be issued and allotted as aforesaid shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall on allotment rank pari passu with the existing Equity Shares of the Company in all respects except that the dividend, if any, be proportionate to the amount paid up per share from time to time.

FURTHER RESOLVED THAT for the purpose of giving effect to the above resolution, the Board be and is hereby authorized on behalf of the Company to do all such acts, deeds and matters and things as it may, at its discretion deem necessary or desirable for such purpose without being required to seek any further consent or approval of the Company or otherwise to the extent that they shall be deemed to have given their approval hereto expressly by the authority of this resolution and with power on behalf of the Company to settle the questions, difficulties, or doubts that may arise in this regard as it may in its absolute discretion deem fit and proper."

By order of the Board
(M V Nagaraj)

Place : Bangalore
Date : 19th August, 2002

Managing Director

NOTES

1. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/herself and a proxy need not be member.
3. The instrument appointing the proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
4. An Explanatory Statement under Section 173(2) of the Companies Act, 1956 in respect of items 5 to 7 of the Notice is annexed hereto.
5. Members/proxies should bring the Attendance Slip sent here with duly filled in to attend the meeting.
6. The Register of Members and Share Transfer Books shall remain closed from 16th September, 2002 to 25th September, 2002 (both days inclusive)
7. Members are requested to address all their correspondence including change of address, etc. to the Registrars and Share Transfer Agent.
8. Despite several reminders, some of the shareholders have still not remitted the Allotment Money Due/Call Money Due. The Board will proceed to forfeit the shares without further reference.
9. Transportation facility will be made at the following location to enable the intending shareholder(s) to attend the meeting. The bus will leave the said location at 3.00 p.m.

Madiwala bus stop.
Next to Madiwala Police Station
Madiwala, Bangalore.

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**ANNEXURE TO NOTICE:
EXPLANATORY STATEMENT PURSUANT
TO SECTION 173(2) OF THE
COMPANIES ACT, 1956.**

ITEM NO.5

Mr. K Prakash is a qualified Company Secretary and has immense experience in the corporate sector. He is a Senior Financial Advisor and was appointed as Additional Director by your Directors on 28th June, 2002. Mr. Prakash holds the office up to the date of the 16th Annual General Meeting and notice from a Member has been received along with a deposit of Rs.500/- proposing his candidature. Your Directors recommend the resolution for your approval.

Except Mr. K. Prakash himself, no other Director is interested/concerned in the above resolution.

ITEM NO. 6

Mr. M V Shetty holds a M Tech degree from IIT, Mumbai and has 27 years of experience in Telecommunications, Product design and Development and Quality/Process Management.

He is also one of the promoters of the Company, Earlier, he was employed by the Indian Telephone Industries Ltd. for 7 years.

He was responsible for bringing out world-class desktop products (Industrial, ergonomic and Tool design). He was part of design team of various products of VXL Data Logger, CNC, Terminals and Thin clients etc. He has good experience in designing ruggedised products for Defence applications. Mr.M V Shetty was also responsible for obtaining ISO certification for the manufacturing operations of VXL Instruments. He has been actively involved in establishing product pre-certification testing facilities meeting International standards.

he has travelled extensively worldwide.

Following statement may be construed as compliance with the requirements of the new guidelines.

I. General Information**1. Nature of the Industry**

VXL Instruments Limited is a leading manufacturer of advanced Terminals, Thin Clients and Networking products. Based in Bangalore, the Company exports its products across the globe. VXL has around 65 percent of the market share in India for its products. It is a preferred vendor to major OEMs. VXL Thin Clients are being regularly used by prestigious customers like Unisys, Panalpina, Rubbermaid, Bell, Tekelec etc. The Company was started in 1976 by the IIT Professionals with the aim of manufacturing high quality products. VXL has placed a premium on its talent. The Company is known for its innovative products.

VXL's manufacturing facilities are ISO 9002 certified. VXL believes that quality can not be compromised for anything. A full fledged Quality Assurance team ensures that every product that leaves the factory is fully compliant to international quality standards. Exports account for significant part of Company's turnover.

2. Date of Commercial Production

The Company commenced commercial production on 26 September 1987.

3. Financial performance

The Company has shown a remarkable turn around after the last two years of losses and has posted a modest profit, despite very adverse business conditions both in the Domestic and Export markets. Even on a lower turnover the Company has turned the corner due to a range of cost cutting measures and strict fiscal discipline. In a situation where world economies continued to be depressed and where US is experiencing the worst recession in recent years, your Company has shown strong resilience in financial terms.

(Rupees in Lakhs)

	31.03.2000	31.03.2001	31.03.2002
Total Revenue	4059.66	4556.34	4119.42
Profit/(Loss) after tax	(162.86)	(790.18)	31.58

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4. Export performance and net foreign exchange

Consistently the Company has been having export earnings. For the year ended 31st March, 2002, the foreign currency earnings stood at Rs.1892.41 lakhs and net foreign exchange earnings was Rs.270.02 lakhs.

5. Foreign Investments and Collaboration

The Company has a subsidiary in UK engaged in marketing of its products in Europe. Currently the Company has no other foreign investment or collaboration.

II. Information about the wholetime director

Mr. M V Shetty holds a M.Tech degree from IIT, Mumbai and has 27 years of experience in Telecommunications, Product design and Development and Quality/Process Management.

He is also one of the promoters of the Company, Earlier, he was employed by the Indian Telephone Industries Ltd. for 7 years.

He was responsible for bringing out world-class desktop products (Industrial, ergonomic and Tool design). He was part of design team of various products of VXL Data Logger, CNC, Terminals and Thin clients etc. He has good experience in designing ruggedised products for Defence applications. Mr.M V Shetty was also responsible for obtaining ISO certification for the manufacturing operations of VXL Instruments. He has been actively involved in establishing product pre-certification testing facilities meeting International standards.

The Remuneration to be given to Mr.M V Shetty will be as follows:

(In Rupees)

Salary	Perquisites	Commission	Sitting fees	Total
4,20,000	4,60,596	-	-	8,80,596

He has travelled extensively worldwide. Mr.M V Shetty and his family hold 409800 fully paid equity shares of the Company.

It would be difficult to ascertain the comparative remuneration profile since there is no other Company in India comparable to this Company in terms of Industry, size and profile of the position.

DISCLOSURE:

1. The remuneration package of Mr. M V Shetty will be within the limits of the revised Schedule XIII of the Companies Act, 1956. However, approval of the Central Government will be sought, if required, in view of the recent amendments to the relevant provisions of the Companies Act, 1956.

The above statement may be treated as an abstract of the terms under Section 302 of the Companies Act, 1956.

Except Mr. M V Shetty, no other Director is interested/concerned in the above resolution.

ITEM NO.7

As a part of growth, your Company would require financial resources at reasonable cost for its future expansion plans. Your Directors consider it prudent to be able to raise Capital, to co-invest in joint ventures where the Company has the business interest at a premium under prevailing rules. Your Board will evaluate any proposal carefully keeping in mind the best interests of your Company and arrive at a suitable price. Your approval is sought to enable your Board of Directors to process any such plan. Any significant development will certainly be shared with the Members at appropriate time.

The Board recommends the Resolution for your approval.

The Directors are interested/concerned in the resolution to the extent of being Shareholders of the Company.

By order of the Board

(M V Nagaraj)

Managing Director

Place: Bangalore

Date : 19th August, 2002

VXL Instruments Limited**DIRECTORS' REPORT**

To
The Members

Your Directors present their report on the business and operations of your Company for the year ended 31st March, 2002.

FINANCIAL RESULTS:

(Rs.In lakhs)

	2001-02	2000-01
Gross Profit	483.00	97.92
Interest	363.55	432.96
Depreciation	105.49	123.16
Profit/(Loss) before tax and extra-ordinary item	13.96	(458.20)
Loss on Insurance Claim	—	220.10
Taxation of prior years	—	111.88
Profit /(Loss) for the year	13.96	(790.18)
Deferred Tax Credit for the year	17.62	—
Balance carried forward	31.58	(790.18)

GENERAL

The Company has shown a remarkable turn around after the last two years of losses and has posted a modest profit, despite very adverse business conditions both in the Domestic and Export markets. Even on a lower turnover, the Company has turned the corner due to a range of austerity measures and strict fiscal discipline. In a situation where world economies continued to be depressed and where US is experiencing the worst recession in recent years, your Company has shown strong resilience in financial terms.

SALES TURNOVER

The Company for the year under review has focused on ensuring a profitable operation which has resulted in registering a profit of Rs.13.96 lakhs, despite a fall of 11% in sales. The good

results have been largely due to excellent goodwill and relationship the Company enjoys with all its prestigious customers who continue to look at your Company for all their requirements. A strong business relationship with major system integrators, OEM vendors, has further strengthened inspite of the existing tough conditions, with the Company bringing many value added solutions to them.

In the Government sector the Company has extended the usage of thin client technology in many departments after the successful completion of the Karnataka Judiciary computerisation. The Company is working closely with several Governments in e-Governance initiatives.

In Banking sector many Commercial Banks including Prudential Bank, Haryana Co-Operative Bank, District Co-Operative Bank, State Bank of Hyderabad and Amanath Co-Operative Bank have successfully deployed Thin Client solutions. The Company is proud to have deployed a unique application solution for the Immigration Departments and will be extended to the rest of the country. Your Company strives to provide value added solutions to fulfill the customers needs, as there is an increasing price pressure in the market.

OVERSEAS OPERATION

The Company's overseas subsidiary in UK had to face severe recessionary trends. However due to the competitive pricing by the parent Company, they have shown consistently good results in very adverse conditions. The Directors believe that as the world economy recovers shortly, your Company is well poised to show substantial growth in these markets. Many regions like South Africa, Mauritius and Sri Lanka have started adopting thin client technology very rapidly and show great promise in the coming years.

In the US, the Company's products have been deployed in many new areas and OEMs like Unisys and ABB have started placing regular

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orders. In the UK and Europe OEMs like BULL, TEKELEC have standardized on the Company products.

RESEARCH AND DEVELOPMENT

R & D continues to be the growth engine for the Company and this year a lot of effort has gone in producing a very high performance and low cost products. Two new products PCI Eazi TC card and Zero Footprint thin client model have been introduced which have been enthusiastically received in the market. The Company works successfully with Microsoft in providing the latest platform like XP & DOT.NET. Also; in-House development on Linux has produced many royalty free models. The Company also outsources R & D Technology from its associate company VXL eTech Limited. It has also outsourced development work to third party R&D Houses.

SUBSIDIARY COMPANIES

VXL Instruments UK has managed to keep its operating loss under control inspite of very severe recessionary conditions in the UK. VXL Instruments UK has very large customer base and a well established marketing network which can serve the Company well in the coming years as market conditions have improved.

During the year under review, due to strategic reason, your Company disposed of 12756 shares of fully paid up equity shares of Rs.10/- each in VXL eTech Limited and consequently it ceased to be a subsidiary of the Company. Your Company continues to hold 49% of the equity in VXL eTech Limited. The September 11 attacks coupled with the global slowdown only added to the woes of the IT industry in general and VXL eTech also had to face the brunt of it. Despite all these, VXL eTech obtained certain business from larger corporate like HP and is in the process of establishing itself as a dependable IT establishment. Keeping this in mind, your Board thought it fit to continue with the investments as it foresees a favorable situation in the future.

XLnet Software Systems Limited did not engage in any active business operations during the year.

FUTURE PROSPECTS

The Company is poised for growth as it is engaged in many project development both in the overseas and domestic operations. The high cost funds are being sought to be replaced by low cost funding schemes and business cycle turn-around have been drastically shortened with restructuring. As such though the first quarter has incurred traditional loss this year the second quarter will show culmination of many project initiatives. Aggressive marketing with low cost operations is already attracting many local and overseas companies to look at your Company for outsourcing their requirements. India in general is being looked upon as a good outsourcing destination and your Company is positioning itself to be the ready choice for these opportunities.

PARTICULARS OF EMPLOYEES

None of the employees draw remuneration in excess of the limit prescribed in Sec 217(2A) of the Companies Act, 1956.

DIRECTORS

Your Board was reconstituted. Mr. Dipak Rao was appointed as Director cum Chairman and Mr. J R Mundkur, Mr. A Murali, Mr. Ajit Shelat, and Mr. K Prakash were appointed as Directors. Mrs. Laxmi J Mundkur opted out of the Board due to personal reasons and your Board wishes to record their appreciation for the services rendered by the said outgoing Director.

Mr. Kumar Shyam and Dr. Ali Jawad retire by rotation and being eligible, offer themselves for re-appointment.

Notice under Section 257 of the Companies Act, 1956, has been received from a member proposing Mr. K Prakash as a Director, who was appointed as Additional Director and who holds office up to the date of the ensuing Annual General Meeting.