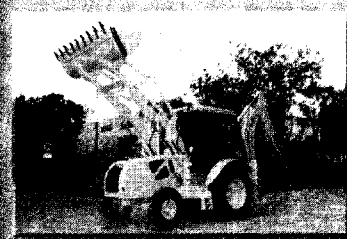
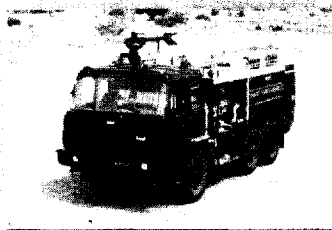
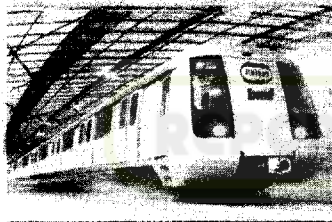


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41st Annual Report 2004-05

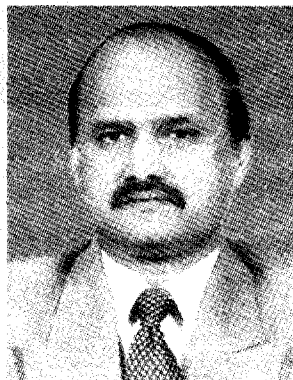


BHARAT EARTH MOVERS LIMITED

Contents

Board of Directors	1
Financial Statistics / Funds Flow	3
Notice	4
Directors' Report	5
Review of Accounts by the Comptroller & Auditor General of India	18
Comments of the Comptroller & Auditor General of India	24
Significant Accounting Policies	26
Balance Sheet	28
Profit & Loss Account	29
Schedules to Financial Statements	30
Expenditure on Social Overheads	47
Balance Sheet Abstract and Company's General Business Profile	49
Cash Flow Statement	50
SSI's to whom the Company is due for more than 30 days	52
Auditors' Report	55
Statement on Subsidiary Company	68
Vignyan Industries Limited	69
Corporate Data	92
Admission Slip / Proxy Form	93

BOARD OF DIRECTORS*



V RS Natarajan
Chairman & Managing Director



Tapan Ray
Jt. Secretary (Export)
Dept. of Defence Production
Ministry of Defence



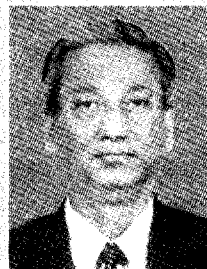
Mohd. Haleem Khan
Jt. Secretary & Additional Financial Advisor
Dept. of Defence Production
Ministry of Defence



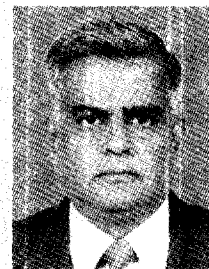
V S Venkatanathan
Director (R&D)



Ramesh C Suthar
Director (Production)



P Mazumdar
Director (Finance)



N K Sreenivasan
Director (Marketing)



Hon'ble Defence Minister Shri Pranab Mukherjee inaugurating Railway Fabrication Unit at KGF in the presence of Hon'ble Minister of State for Surface Transport & Highways Shri KH Muniyappa, our CMD Shri V RS Natarajan and other guests.



Shri V RS Natarajan, CMD handing over a mounted-blowup of Metro Train along with a cheque for Rs. 5 lakhs towards Tsunami Relief Fund to Hon'ble Chief Minister of Karnataka Shri Dharam Singh

Financial Statistics

(Rs. in Lakhs)

	1965-66	1981-82	1986-87	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
CAPITAL											
Equity Capital	681	1,200	3,000	3,687	3,687	3,687	3,687	3,687	3,687	3,687	3,687
Reserves and Surplus	40	5,126	16,056	54,877	54,937	55,497	55,689	55,978	54,827	56,437	69,781
Net Worth	653	6,326	18,901	56,922	57,752	57,774	55,700	55,559	53,219	56,888	69,439
Loans from Government of India	-	1,992	6,616	2,525	1,440	-	-	-	-	-	-
Loans from Banks	-	4,577	14,047	41,466	47,305	37,537	23,471	27,255	3,130	3,148	7,491
Other Loans	-	-	6,489	27,247	22,951	10,855	6,288	2,778	220	180	-
Gross Block	236	5,010	16,492	49,708	50,618	52,199	52,695	52,851	53,425	54,334	54,395
Depreciation	27	2,404	4,917	28,613	31,058	33,509	35,805	37,648	39,213	40,949	42,738
Inventories	339	9,529	20,930	65,732	67,961	61,079	63,868	63,886	74,850	57,327	62,080
Sundry Debtors	119	3,733	19,719	61,882	60,665	52,016	52,067	56,730	49,418	44,356	60,820
Working Capital	447	10,212	33,804	106,510	108,655	86,838	67,512	69,190	43,454	47,933	64,658
Capital Employed	656	12,817	45,379	127,605	128,215	105,528	84,402	84,392	57,666	61,318	76,315
REVENUE											
Sales	517	22,193	50,615	125,971	121,262	131,709	134,740	142,415	168,117	176,575	185,601
Value of Production	523	22,520	51,487	128,596	124,415	129,385	134,317	143,610	174,016	169,186	188,595
Value Added	243	7,800	22,636	53,809	50,677	51,700	54,777	53,292	62,566	63,867	85,090
Profit Before Depreciation & Interest	61	4,158	8,799	14,137	11,722	11,438	6,525	5,741	6,017	6,995	29,757
Depreciation	21	284	837	2,458	2,572	2,679	2,340	2,214	1,931	1,829	2,299
Profit Before Interest & Tax	40	3,874	7,962	11,679	9,150	8,759	4,185	3,527	4,086	5,166	27,458
Interest	-	886	3,361	10,074	8,878	6,399	3,120	2,226	300	148	179
Profit Before Tax	40	2,988	4,601	1,605	272	2,360	1,065	1,301	3,787	5,018	27,279
Provision for Tax	8	1,775	1,000	540	210	900	465	766	1,177	2,601	9,751
Profit After Tax	32	1,213	3,601	1,065	62	1,460	600	535	2,610	2,417	17,528
Debt Redemption Reserve	-	-	500	147	-	-	-	-	-	-	-
Dividend (Excluding Tax)	-	72	300	737	-	735	367	441	735	735	3,674
RATIOS											
Turnover to Capital Employed	78.82	173.05	111.54	98.72	94.58	125.15	159.64	168.75	291.54	287.97	243.20
PBIT to Capital Employed	6.06	30.22	17.55	9.15	7.14	8.32	4.96	4.18	7.09	8.43	35.98
Profit Before Tax to Sales	7.69	13.46	9.09	1.27	0.22	1.79	0.79	0.91	2.25	2.84	14.70
Profit After Tax to Net Worth	4.86	19.17	19.05	1.87	0.11	2.53	1.08	0.96	4.90	4.25	25.24
Value of Production to Inventories (Mean)	156.30	240.12	249.41	203.58	186.12	200.54	215.00	224.82	250.89	256.00	315.89
Funds Flow	(Rs. in Lakhs)										
				1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
SOURCES OF FUNDS											
Profit after Tax				1,065	62	1,460	600	535	2,610	2,417	17,528
Depreciation				2,346	2,445	2,451	2,296	1,843	1,564	1,736	1,789
Increase in Share Capital				-	-	-	-	-	-	-	-
Share Premium				6	1	-	-	-	-	-	-
Increase in Borrowings				-	459	-	-	274	-	-	4,163
Decrease in Working Capital				788	-	22,103	19,039	-	25,856	-	-
Investments				-	-	-	-	-	-	384	-
Others				-	774	-	-	-	2	2,058	0
				4,205	3,741	26,014	21,935	2,652	30,032	6,595	23,481
UTILISATION OF FUNDS											
Fixed Assets				2,634	1,596	986	419	(58)	837	740	509
Increase in Working Capital				-	2,145	-	-	1,677	-	4,479	16,726
Decrease in Borrowings				621	-	23,305	18,634	-	26,684	21	-
Dividend & tax thereon				811	-	897	405	441	829	831	4,185
Investments				-	-	287	210	26	-	-	(25)
Others				139	-	539	2,267	566	1,682	525	2,087
				4,205	3,741	26,014	21,935	2,652	30,032	6,595	23,481

41st Annual Report

Notice

NOTICE is hereby given that the 41st Annual General Meeting of Bharat Earth Movers Limited will be held on Wednesday, the 28th September, 2005 at 10.30 hours at Hotel The Grand Ashok, Banquet Hall, Kumara Krupa Road, High Grounds, Bangalore - 560 001, to transact the following business :

I. ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Profit and Loss Account for the year ended 31st March, 2005 and the Balance Sheet as at that date and Auditors' Report thereon.

2. To declare Dividend.

3. To elect a Director in place of Shri V.R.S. Natarajan, Chairman & Managing Director, who retires by rotation and being eligible, offers himself for re-appointment.

4. To elect a Director in place of Shri.Mohd. Haleem Khan, who retires by rotation and being eligible, offers himself for re-appointment.

5. To fix the remuneration of the Auditors for the years 2004-05 and 2005-06.

By order of the Board
for **Bharat Earth Movers Limited**

Place : Bangalore
Date : 29.08.2005

K.C. Medapa
Company Secretary

NOTES :

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy/proxies to attend and vote instead of himself/herself and proxy need not be a member of the Company.
2. Proxy form is attached. The Proxy form should be deposited at the Registered Office of the Company not less than 48 hours before commencement of the meeting.
3. The Register of Members and Share Transfer Book will remain closed from 20th September, 2005 to 28th September, 2005 (both days inclusive).
4. Shareholders are requested to address all correspondence in relation to share matters to the Company's Registrars and Share Transfer Agents, M/s Karvy Computershare Private Limited at the following address :

M/s: Karvy Computershare Private Limited
No.51/2, T.K.N. Complex, Vanivilas Road
Opp: National College, Basavanagudi
Bangalore - 560 004.

5. The dividend declared at the meeting will be made available on or after 28th September, 2005 in respect of shares held in Physical form to those members who are entitled to the same and whose names appear in the Register of Members of the Company after giving effect to all valid share transfers lodged with the Company at the end of business hours on 19th September, 2005 and in respect of shares held in the electronic form to those "Deemed Members" whose names appear in the Statement of Beneficial Ownership furnished by the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL).
6. Member / Proxy holder must bring the Attendance Slip to the Meeting and hand it over at the entrance duly signed.
7. Members who are holding shares in more than one folio are requested to intimate to the Registrar and Transfer Agents the details of all their folio numbers for consolidation into a single folio.
8. Members are requested to bring their copies of the Annual Report to the meeting.

Directors' Report

The Directors have pleasure in presenting the 41st Annual Report and Audited Accounts for the year ended 31.03.2005.

FINANCIAL RESULTS

(Rs. in lakhs)

	2004-2005	2003-2004
Sales (Gross)	1,85,601	1,76,575
Value of Production	1,88,595	1,69,186
Profit (before Depreciation Interest and Tax)	29,757	6,995
Interest	179	148
Depreciation	2,299	1,829
Profit before tax	27,279	5,018
Provision for taxation	9,751	2,601
Profit after tax	17,528	2,417
Profit available for appropriations	17,827	2,780
APPROPRIATIONS :		
Interim Dividend including tax	623	—
Proposed Dividend	3,123	735
Tax on Dividend	438	96
General Reserve	12,000	1,650
Profit & Loss Account	1,643	299
Net Worth	69,439	56,888

TURNOVER AND PROFITABILITY

Your Company has achieved an all time high turnover of Rs.185601 lakhs during the financial year 2004-05, an increase of Rs.9026 lakhs registering a growth of 5.11 % over the previous year. The value of production was Rs.188595 lakhs recording an increase of Rs.19409 lakhs compared to previous year. The Company's Profit Before Tax stood at Rs.27279 lakhs, which is almost 5.44 times of the previous year. The Profit After Tax stood at Rs.17528 lakhs. This is the highest ever profit earned by the Company which was possible by controlling the product-mix of equipments, spares manufactured and sold and cost control measures implemented yielding results. The year 2004-05 had been declared as the "YEAR OF TURNAROUND" for the Bangalore Complex and KGF Complex. Both the units have shown profits enabling the overall performance of the company to grow substantially. This has been a major achievement.

DIVIDEND

An interim dividend of 15% was declared by the Board. Final dividend of 85% has been recommended by the Board bringing the total dividend to 100% for the year 2004-05. This is the highest dividend declared by the Company.

EXPORTS

The Company posted an export turnover of Rs. 5856 lakhs of which Rs. 5167 lakhs constituted physical exports. An export target of Rs. 15000 lakhs has been fixed for the year 2005-06. The year 2005-06 has been declared as the "YEAR OF EXPORT" and every effort is being made to increase our presence in the global market. Towards this end, certain regions / areas have been identified with focus in the following regions:

1. North and Central African Countries
2. Latin America comprising of Brazil, Chile, Peru & Suriname
3. Indonesia and Australian Region
4. United Arab Emirates including Iran.

STRUCTURE, SEGMENT REPORT AND PROSPECTS

The company has three manufacturing units located at Bangalore, KGF and Mysore. At the Bangalore Complex, Railway Rolling Stock, Metro Coaches, Defence equipments and Aggregates are manufactured. At the KGF Complex, Heavy Earthmoving Equipment like Bulldozers, Hydraulic Excavators, Mining Shovels, Backhoe Loaders, Walking Draglines, Loaders, etc., of different models, capacity, spares, Defence equipment and aggregates are manufactured. At the Mysore Complex, Dumpers, Motor Graders, Engines of different capacity and sizes and Defence equipments are manufactured.

The company deals with three segments in the product range viz., Earthmoving equipment segment catering to the core sector of the economy, the Railway Rolling Stock segment catering to the Railways, Metro Coaches for Metros and Defence Segment covering ground support equipments, aggregates and Wagons. The Earthmoving segment accounted for Rs.118374 lakhs constituting 63.78% of the total turnover, Defence segment accounted for Rs. 56299 lakhs constituting 30.33% and the Railway Segment accounted for Rs.10928 lakhs constituting 5.89%.

The outlook for the Earthmoving segment largely depends upon the growth of the core sector of the industry namely, mining and infrastructure. This segment presents a promising outlook but is open to severe competition from within and outside the country. There is a gradual shift in the existing practice of coal companies buying equipments and operating them for mining. Blocks of coalfields are being offered for exploitation by interested parties who will be responsible for excavation and development of the mine. In order to ensure our share of business for equipment and spares, it has become necessary to form joint ventures to operate the mines with BEML being responsible for supply of equipments, operation and its maintenance.

41st Annual Report

Directors' Report

This will ensure that the share of business for earthmoving equipment / spares is retained. In the Railway Rolling Stock segment, the off-take is decided by the Railway Board and for the Metro Coach the prospects appears to be good with several cities like Bangalore, Hyderabad and Ahmedabad indicating their intention to go in for metro rail transit system to reduce the congestion and pollution levels. The company has also bid for the Mumbai Metro Project as a member of the consortium consisting of M/s L&T Gammon India, M/s Siemens and M/s BEML. In the Defence segment, the prospects are dependent on the off-take of equipments by the Defence. In the Railway and Defence segments, the prospects largely depends on outlays by Government for procurement of the range of equipments manufactured by the company. The competition in the Defence segment is growing. In the metro coach segment the demand is projected to grow which is linked to the projects being approved for implementation in cities for which funds have to be raised and implementation of the project is combined with supply and maintenance of the coaches as a package.

The prospects for the year 2005-06 is good with the company setting for itself a target of Rs.2200 crores with better profitability over that attained during this year. The company has on hand orders to the tune of Rs.1279 crores for supplies to be made during the year. The company is confident of attaining the target set and showing better returns.

QUALITY

In line with the company's vision to emerge as a global player in providing world class products and services, impetus has been given to sustain a culture of continuous improvement.

Concerted efforts and resources have been focused on Kaizen activities and breakthrough improvements in the manufacturing process. Company has derived benefits from the same.

Small group activities in the form of quality circles, TPM teams, Kaizen teams etc., continue to receive impetus and have contributed in the areas of cost reduction and quality improvement.

Training has been imparted and competencies developed in the areas of TPM, Lean / Six Sigma, reliability etc. The company has tied up with a leading institution for training and development of human resources for six sigma implementation.

A symbiosis has been maintained with vendors through constant vendor development and periodic vendor meets. Such interactions have helped in identifying areas of mutual benefit and strengthening synergies.

Based on detailed analysis and evaluation, deserving suppliers have been identified and accorded status of Self Certification. This pioneering exercise will be continued in a progressive manner.

Cross-functional teams continues to visit various customer sites which has helped in fine-tuning customer satisfaction that is required with regard to various products and services.

The above measures have resulted in definitive reduction in internal failure cost and warranty expenditure.

RESEARCH & DEVELOPMENT

A well established Research & Development Centre of the Company continues to play a vital role in the design & development of products and critical aggregates, indigenization activity etc. During the year, a 7 T Class Excavator – BE71 and Backhoe Loader - BL 9H were formally launched after successful customer trails which are under series production. An indigenously developed 20T Class State-of-the-art new Hydraulic Excavator - BE200 has been developed and presently undergoing in-house testing and trials and is likely to be introduced into the market shortly. Presently, the design and development of a Load Haul Dumper – BL15 is on hand for underground mining application. Also a four-cylinder indigenous engine B4D105 has been built, tested, evaluated and planned to be fitted on one of the earthmoving equipment.

The information on R&D, Technology Absorption, Adaptation and Innovation is at **Annexure-I**.

FINANCE

The working capital requirement was met from the internal resources and cash credit facilities from banks. There was no overdue installment of principal and interest.

The company is in the process of upgrading its facilities by re-building and replacing the existing plant & machinery wherever necessary, modernizing and upgrading the manufacturing facilities to help improve quality of products as also productivity. A capital outlay of over Rs.125 crores is proposed over a two year period. The company is a member of a consortium constituted to bid for the Metro Rail Project at Mumbai, and if successful would require an investment of about Rs.100 crores from BEML.

The company is also contemplating entering into a joint venture for contract mining which would require an investment of about Rs.25 crores. It is proposed to introduce VRS scheme to selected workforce in unskilled and support staff categories to reduce overheads which would require an estimated outlay of about Rs.90 crores in the next 2-3 years. To fund these and other capital investment over the next couple of years, it is

Directors' Report

proposed to make a Public Issue of equity shares at a premium through book building process.

The company's contribution to exchequer was of the order of Rs. 36647.86 lakhs during the year by way of Excise Duty, Customs Duty, Sales Tax, Income Tax, Wealth Tax and Cess.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year, the Company's export earning stood at Rs. 3908.94 lakhs. The total foreign exchange utilised during the year was Rs. 49682.84 lakhs.

A sum of Rs. 122.56 lakhs was incurred towards deputation of personnel abroad for business / export promotion, after-sales-services and training.

FIXED DEPOSITS

The entire amount outstanding against fixed deposits matured during the year and was repaid. The company did not renew or accept any fresh deposits during the year. Fixed deposits aggregating to Rs.0.27 lakhs remains unclaimed.

VIGILANCE

The Vigilance Department is functioning effectively for ensuring the objective of Central Vigilance Commission (CVC) by adopting preventive and detective measures in accordance with the guidelines issued by CVC from time to time.

An elaborate and well structured Vigilance system has been established covering all the areas and operations of organizational activity. The Vigilance Department scrutinizes/ checks various records / documents selectively to ensure that the systems are followed. Periodical meetings of Vigilance Officers are held on regular basis and reports submitted to various agencies including CVC / MoD etc. Effective investigations have been carried out on all the complaints received and reports are submitted to the competent authorities concerned, in time.

In addition to the above, the Vigilance Department conducts surprise checks, verification of high value purchase orders, verification of property returns on random basis. Systems Audit are conducted to ensure that established systems are followed strictly.

CORPORATE GOVERNANCE

A report on Corporate Governance along with a compliance certificate from the Auditors as prescribed under the Listing Agreement with the Stock Exchanges, is annexed to this report.

SUBSIDIARY COMPANY

M/s Vignyan Industries Limited, Tarikere recorded a turnover of Rs.2154.90 lakhs with profit before tax of Rs.92.88 lakhs

recording a growth of 43.23% in sales and 35.86 times in profit. The value of production of the company stood at Rs.2178.11 lakhs and profit after tax stood at Rs.42.03 lakhs. The company is in the process of modernizing its facilities to improve its productivity. The company is looking forward to diversify its product range to have a broader customer base. The company is also exploring the export potential for its products.

The statement and particulars relating to M/s. Vignyan Industries Limited, Tarikere, pursuant to Section 212 of the Companies Act, 1956 are attached.

SMALL SCALE AND ANCILLARY INDUSTRIES

The Small Scale and Ancillary Units continue to get support and preference from BEML wherever there is shortage of in-house capacity. The Company extends technical guidance and requisite support to these industries wherever required. Our quality control personnel visit the industries to assist and ensure that the quality of the products meet the requisite standards.

During 2004-05, the Company procured items worth Rs.10281.13 lakhs from these Units.

RAJBHASHA

Thrust is given to use of Hindi in official work and training. Around 1575 employees have been trained in Prabodh, Praveen and Pragya courses. Important letters, general orders, circulars, annual reports are issued bilingually whereas sign boards and name plates are tri-lingually displayed.

Hindi anthakashri, essay writing competitions and Hindi workshops were organised in all the divisions to propagate the use of Hindi. A session on 'Official Language Policy' is included in the in-house training programmes.

During the year, the Joint Inspection Committee on Official Language, MoD inspected the Mysore Division and appreciated the progress made in the implementation of Official Language Policy in the Division and also suggested few improvements in its implementation.

AWARDS

During the year, Equipment Division of Mysore Complex was awarded the National Safety Award under Scheme-I and Scheme-II for the year 2003.

The Company was awarded the Best Exporter Award for the years 2001-02, 2002-03 and 2003-04 by the Department of Industry & Commerce, Government of Karnataka. The award was given to BEML in district-wise non-SSI category for increasing product exports from Mysore and KGF Plants.

41st Annual Report

Directors' Report

The Company also bagged the regional award for highest exports for 2001-02 and a Certificate of Excellence for 2002-03 from Engineering Export Promotion Council, Southern Region.

MANPOWER

The manpower strength as on 31st March, 2005 stood at 12,189 as against 12,922 of the previous year. With focus on reducing the manpower particularly in the area of unskilled and support workforce, two rounds of Voluntary Retirement Schemes were introduced which was availed by 571 employees at a cost of Rs. 3,223.05 lakhs.

Representation of SC/ST and Ex-Servicemen category-wise as on 01.01.2005 and recruitments made are as under:

Representation of SC/ST/Ex-Servicemen as on 01.01.2005

Category/ Group	Total Strength as on		No. of SC/ST and Ex-servicemen					
			Scheduled Caste		Scheduled Tribe		Ex-service men	
	1.1.04	1.1.05	1.1.04	1.1.05	1.1.04	1.1.05	1.1.04	1.1.05
Group-A	1471	1574	190	207	44	47	12	15
Group-B	830	611	116	82	15	12	13	12
Group-C	10430	9953	2294	2173	378	368	580	519
Group-D (ESH)	218	210	64	64	13	11	2	0
Group-D (SH)	5	0	4	0	0	0	0	0
MREs	4	0	1	0	0	0	0	0
Total	12958	12348	2669	2526	450	438	607	546

Recruitment during 2004

Group	General	SC	ST	EX-S	OBC	TOTAL
Group-A	21	03	0	0	04	28

HUMAN RESOURCES DEVELOPMENT & INDUSTRIAL RELATIONS

The HRD department took several initiatives for updating Technical / Professional skills of employees and for improving work culture. Towards this, the Company organized several in-house and external training programs for 7,040 employees covering 14,923 man-days.

The overall industrial relation situation in the company was cordial during the year.

SOCIAL WELFARE

The entire workforce of the company contributed a day's salary aggregating to Rs.50 lakhs to the Prime Minister Relief Fund towards mitigating the suffering of people affected by Tsunami

disaster. Further, the company contributed a sum of Rs.10 lakhs to the Tamil Nadu Chief Minister's Public Relief Fund and Rs.5 lakhs to Karnataka Chief Minister's Relief Fund (Tsunami), in aggregate Rs.15 lakhs towards Tsunami Relief.

In the Company-adopted village at Dasarahosahalli near KGF Complex, the out-patient medical treatment facilities were extended to about 153 families.

To commemorate the 41st Death Anniversary of Dr. BR Ambedkar, the SC / ST Associations distributed fruits to the patients at TB Sanitorium Hospital, Mysore.

PARTICULARS OF EMPLOYEES

There was no employee of the Company who received remuneration in excess of the limits prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

ENVIRONMENT AND POLLUTION CONTROL

In order to protect the environment, tree plantation were undertaken in and around the factory premises / company established townships. Saplings of various types of trees including flower bearing trees were planted in the vacant lands belonging to the Company during various occasions for maintaining ecological balance in the surrounding areas. Further, measures have also been taken to protect the existing flora and fauna from any basic interference.

Effluent treatment plants have been constructed inside the factory premises of the production units for treatment of effluents. Further, treatment plants / oxidation ponds for treatment of natural process of treating effluents have been installed in various locations inside the factory and township. Treated effluent water is being utilised by the landscaping department in the production units.

ENERGY CONSERVATION

The Company continues to give emphasis on conservation of energy. The efficiency of energy utilization is closely monitored to attain a high level of effective conservation. Some of the measures adopted during the year for energy conservation are :

1. Round the clock monitoring of the hanger lights and controlling them to barest necessity.
2. Decentralization of compressed air system by providing portable compressors, wherever possible.
3. Shutting of electrical machinery / appliances during un-productive hours.