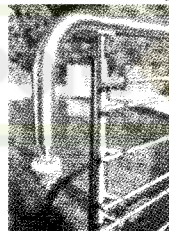
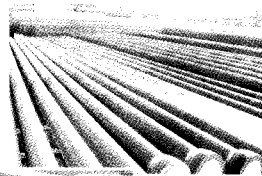
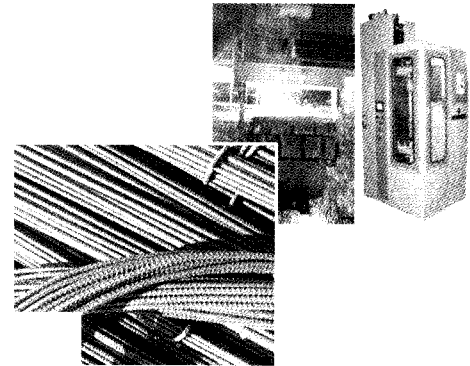
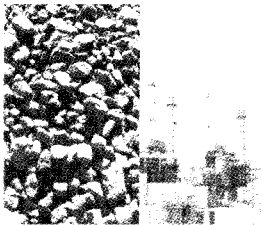


20TH

ANNUAL REPORT - 2005-06



Captive Sponge Iron / Pig Iron

Structural

Stainless Steel

Electric Vehicle

D. I. Pipe

Construction Steel

Engineering Equipments



ELECTROTHERM
(INDIA) LTD.



Sponge Iron is manufactured from Iron Ore

Sponge Iron and Steel Scrap is melted in Induction Furnace

Liquid metal is taken into Metal Refining Konverter (MRK) for Stainless Steel Making

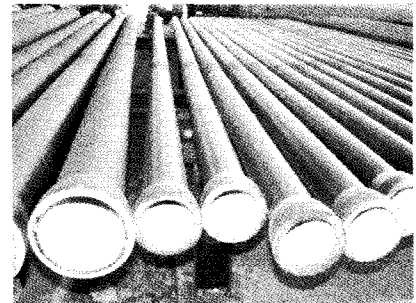
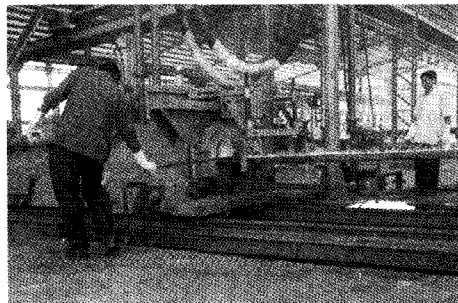


Billets are re-heated and rolled in the Rolling Mill to manufacture TMT Bars.

Refined Liquid metal is taken into CCM for billet making.

Liquid metal taken from Induction Furnace/ MRK is put into LRF for refining

D.I.Pipe manufacturing process



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COMPANY BRIEF

BOARD OF DIRECTORS

Mr. Mukesh Bhandari

Chairman & Managing Director

Mr. Shailesh Bhandari - Whole Time Director

Mr. Harish Sharma - Whole Time Director

Mr. Narendra Dalal - Whole Time Director

Mr. Avinash Bhandari - Whole Time Director

Mr. Naveen Nakra - Director

Mr. Nilesh Desai - Director

Mr. Madhusudan Somani - Director

Mr. Ram Singh - Director

Brig. Pradeep Krishna Prasad - Director

PLANTS

Engineering & Projects Division

Survey No.72, Village: Palodia
Taluka : Kalol,
Dist: Gandhinagar-382115

Steel, Engineering, DI Pipe & Electric Vehicle Division

Survey No.325,
Village: Samakhiyali,
Taluka: Bhachau, Dist: Kutch

Wind Farm

Village: Dhank
Dist: Rajkot, Gujarat

REGISTERED OFFICE

Survey No.72, Village: Palodia
Taluka : Kalol,
Dist: Gandhinagar-382115

AUDITORS

MEHTA LODHA & CO.

Chartered Accountants
Ahmedabad

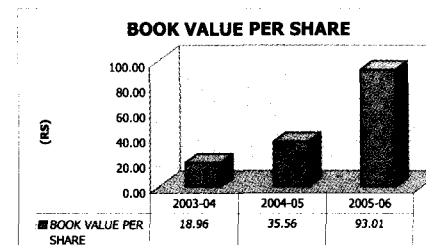
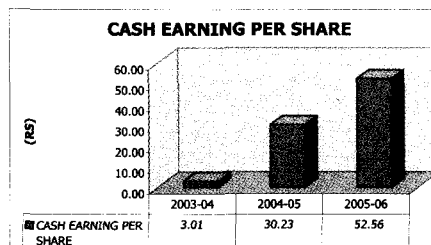
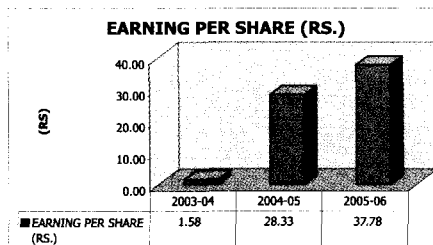
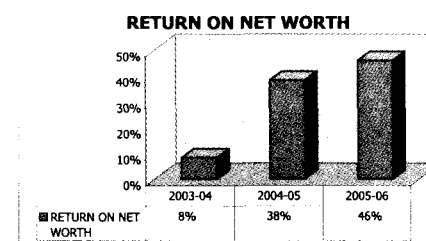
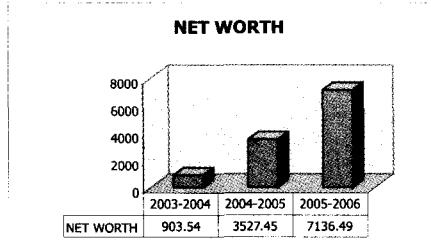
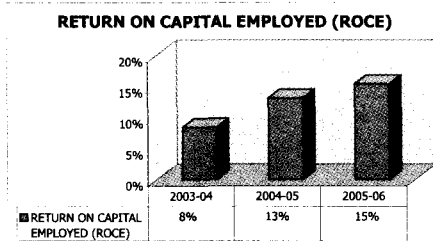
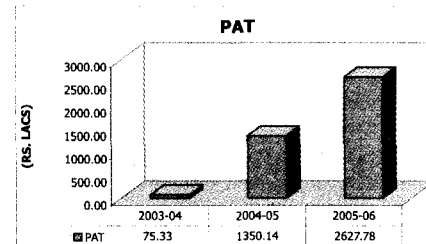
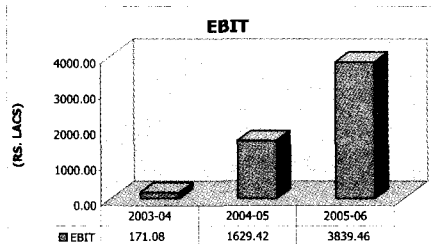
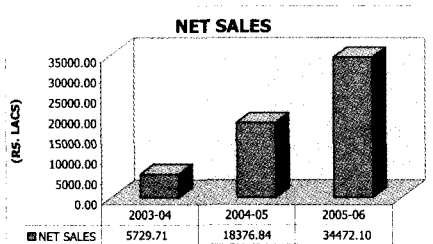
BANKERS

Bank of India
Bank of Baroda
Corporation Bank
Dena Bank
Oriental Bank of Commerce
Punjab National Bank
State Bank of India
State Bank of Indore
State Bank of Saurashtra
State Bank of Travancore
Uco Bank

ELECTROTHERM (INDIA) LIMITED

FINANCIAL HIGHLIGHTS

DETAILS	2005-2006	2004-2005	2003-2004
SALES (RS.in LACS.)	34,472.10	18,376.84	5729.71
COMPOUNDED ANNUAL GROWTH RATE (SALES)	88%	88%	88%
GROWTH IN SALES (ANNUAL)	88%	221%	87%
EARNING BEFORE INTEREST & TAX (EBIT) (RS. IN LACS)	3,839.46	1,629.42	171.08
GROWTH IN EBIT (ANNUAL)	136%	852%	101%
PROFIT AFTER TAX - (RS. IN LACS)	2,627.78	1,350.14	75.33
GROWTH IN PROFIT AFTER TAX (ANNUAL)	95%	1692%	876%
CAPITAL EMPLOYED (RS. IN LACS.)	24916.57	12428.97	2030.1
NET WORTH (RS. IN LACS.)	7136.49	3527.45	903.54
GROSS PROFIT RATIO	18.28%	13.26%	14.10%
CASH OPERATING PROFIT(PBIDT)/NET SALES	13.18%	9.36%	4.18%
OPERATING PROFIT/NET SALES	7.62%	7.35%	1.31%
RETURN ON CAPITAL EMPLOYED (ROCE)	15.41%	13.11%	8.43%
DEBIT/EQUITY RATIO	2.22	2.08	0.51
CURRENT RATIO	1.29	1.76	1.19
RETURN ON NET WORTH	46.04%	38.28%	8.34%
EARNING PER SHARE (RS.)	37.78	28.33	1.58
DIVIDEND RATE	20%	15%	-
BOOK VALUE PER SHARE (RS.)	93.01	35.56	18.96
PE RATIO	8.06	2.78	5.06
CASH EARNING PER SHARE (RS.)	52.56	30.23	3.01
NOTES * CAPITAL EMPLOYED (EXCLUDING CAPITAL WORK IN PROCESS) * OPERATING PROFIT/PAT (EXCLUDING DEFERRED TAX)			



CHAIRMAN'S MESSAGE

Dear Shareholder,

Last year was the second consecutive year where the company showed excellent results. It was an eventful year whose triumphs cannot be forgotten. Your company has moved further ahead in all its areas of activities. We will continue to move forward and give thrust to R&D, product innovation and product development.

India's diversity makes me very optimistic about the future. I have no doubt that the 21st century will belong to India and China.

One of the important building blocks of infrastructure and industry is steel. China continues to take the lead and has crossed a production of 350 million tonnes, accounting for nearly 35% of global steel production. The chief ingredients for producing steel are iron ore and scrap metal. According to the figures released by the International Iron and Steel Institute, about 31% of the world steel is produced through electric furnaces which consume DRI and scrap. China, the largest producer of steel, produces 13% of its total output using electric steel making. However, the usage of DRI and scrap is much higher. In India, out of total production of nearly 50 million TPA, almost 50% is produced using electric furnaces like Induction & Arc. In Europe the share of electric steel making is even higher. Spain produces 75% of its total steel using this route whereas Luxembourg produces 100% using electric furnaces. Countries like Turkey, Mexico, Egypt and Iran also produce 75% through electric furnaces route. Hence, your company has huge opportunity and is targeting exports as a major area of revenues in engineering, capital equipment and furnace division.

The price of oil has hit a record of \$78 per barrel. The energy crunch, it looks like, is going from bad to worse. The BRIC report of Goldman Sachs predicts that between 2000 and 2050, India's GDP will multiply 60 times and that of China 40 times. If this is true and if the oil consumption grows at just half of GDP growth rate, then India will need 60 million barrels per day and China will need 160 million barrels per day. But the total world production today is a little over 85 million barrels per day and it does not seem that the same will rise much higher. In such a scenario, we have no option but to look for alternative sources of energy.

India is very lucky to have coal reserves of 200 billion tonnes, the fourth largest in the world. The main use of such coal will be to generate electricity. Once electricity is available in plenty and at a reasonable cost and rechargeable batteries improve in performance, the best choice will be to switch over to battery operated vehicles. Such vehicles can be charged conveniently by electricity produced from our abundant coal reserves. In this manner we will substitute oil by coal directly. Though some people are advocating that we should produce oil from coal and use the same in automobiles, it is more efficient to use the coal reserves for generating electricity at cheaper rates. Transporting electricity over long distances is much more economical and convenient as compared to transporting liquid fuel.

Your company has made a small beginning towards conservation of scarce oil which the country has to import, by launching battery operated two-wheelers and pedal cycles under the brand name "Yo Bykes". Not only will these vehicles be economical to operate, they will also be environmental friendly. These vehicles will be a boon for the growing middle class, students, and housewives.

The initial response to the YO Bykes launched in the month of Feb 06 was overwhelming and within a short period some of the biggest name in Auto Sector have joined us as Dealers. Your company already has a dealer network of more than 30 dealers in Gujarat itself, with at least one dealer in each of the districts. Road shows in other states of Madhya Pradesh, Rajasthan, Maharashtra, Haryana and Punjab are in progress and the dealers are being appointed in all the major cities of these states. In a short time from 1000 vehicles a month, the company has created a network which can market and service 10000 vehicles a month. In the current year from Sept 06 to Mar 07 the company proposes to sell more than 50000 vehicles and is gearing up to sell more than 200000 vehicles in the next year.

Electrotherm always believed that Innovation and timely implementation has helped your company emerge as a growing and forward looking company.

From steel to wheels, Electrotherm has made a smooth transition. There are leaders and there are followers. There are inventors and there are adopters. It is innovation which leads the way for future adaptation and evolution. In whatever ways possible, Electrotherm has innovated in all their endeavors to provide utmost value to its customers. From a metallurgical solution provider to customer oriented Yo Bykes manufacturer is a big step for Electrotherm. I am confident that your company will emerge probably as the largest manufacturer of electric vehicles and hybrid electric vehicles of all types and capacities. This first mover advantage will ensure leadership position for your company.

While Electrotherm has one eye on the existing needs and requirements, it has always focused the other eye on the changing needs. Every move that it has made be it in metallurgical field or in electric vehicles, your company has demonstrated that it looks into the future much before others.

You will be pleased to note that the company has signed an MOU with Beichen Hi Tech Industrial Park, Tianjin, China to set up an engineering unit. This will be a Wholly Owned Subsidiary of your company and will manufacture Induction Furnaces, Induction Heating and Hardening Equipment and Components for Electric Vehicles.

Your company is entering exciting times and is confident of delivering best value to its shareholders.

Thank You.

MUKESH BHANDARI
Chairman & Managing Director



DIRECTOR'S REPORT TO THE SHAREHOLDERS

To:
The Members,

Your Directors have pleasure in presenting the 20th Annual Report on the business and operations of your Company and Audited Financial Statement for the financial year ended as on 31st March, 2006.

FINANCIAL RESULTS

Year ending March 31 st	(Rs. in Lacs)	
	2006	2005
Sales And Other Income	34,655.70	18,598.46
Profit Before Interest, Depreciation & Tax	4,544.07	1,720.26
Interest	919.05	159.29
Depreciation	704.61	90.83
Profit before Tax	2,920.41	1,470.14
Provision For Income Tax	292.63	120.00
Profit after Tax	2,627.78	1,350.14
Provision for Deferred Tax	748.43	0.00
Profit After Deferred Tax	1,879.35	1,350.14
Prior period adjustment	694.92	0.00
Profit after prior period adjustment	1,184.43	1,350.14
Surplus Brought forward	1,513.69	315.78
Balance Carried forward	2,310.62	1,513.69

DIVIDEND:

In view of the Company's profitable performance, the Directors are pleased to recommend dividend of 20% on paid up equity capital and 6% (proportionately) on preference shares.

OPERATIONS:

The economy of the country continues to grow at an impressive pace and there is huge capital outflow in the infrastructure and real estate sectors. The country's exports are also growing and with the positive policies of the central and state government, your company has been able to show impressive growth.

During the year, your Company has achieved a turnover of Rs. 34,472.10 Lacs in comparison to the turnover of Rs.18,376.84 lacs of previous year, showing a growth of over 88%. Net profit after provision for taxation during the year is Rs.2,627.78 Lacs against Rs.1350.14 Lacs during the previous year, showing an increase of 95%.

CAPITAL PROJECTS:

The company is in the process of implementing its project at Kutch. This is a project being implemented at an investment of Rs.550 crores and is likely to be completed by the year 2007. The company has already invested Rs.190 crores so far through term loans and is in the process of mobilizing financial resources through QIP / FCCB/ other routes up to Rs.100 Crores. With the completion of this project, the company will be one of the few totally integrated units in the country. Starting with captive sponge iron and captive power, the company will be able to produce high quality construction steel, structural steel for infrastructure projects and transmission towers, stainless steel for engineering applications, alloy steel for auto sector and engineering industry, ductile iron pipes for water supply schemes and infrastructure.

The company has also established manufacturing capabilities to produce Electric vehicles.

Once fully commissioned the company will have the capacity to sell 150000 TPA of construction steel, 150000 TPA special steels including stainless steel and alloy steel, 100000 TPA of Ductile iron pipes, 30MW of captive power and 3,00,000 electric vehicles per annum. In addition, the plant will have captive capacities of pellets / sponge iron.

The company has identified China as a huge growth opportunity. With China accounting for nearly 35% of the world steel and foundry business, your company has decided to set up a manufacturing base in district Tianjin of China. This activity will be carried out by a Wholly Owned Subsidiary which the company is in the process of incorporating. This WOS will essentially manufacture Induction Furnaces and other metallurgical equipment for Chinese market. Besides Induction Furnaces, this subsidiary will also manufacture components for electric vehicles.

EXPORT:

Your Company's exports continue to increase each year. During the year, the export turnover was Rs. 4111.03 Lacs as compared to Rs. 3387 Lacs during the previous year. Several initiatives have been taken which has resulted in an export order booking of more than Rs. 110 Crores. In the current year as well as in coming years, the company is targeting a growth of more than 100% on the export front.

QUALITY & ENVIRONMENT

Your company is now recognized for its superior quality and after sales service. This emphasis on quality has enabled the company to position its product above the competitors and Electrotherm brand is now recognized as a symbol of quality. Electrotherm is recognized as a company which tailors its products according to the requirements of the customers instead of trying to push the products which it is comfortable in manufacturing. This customer focus has earned a good name for the company and your company has a record that none of its customers ever change their loyalties in favour of its competitors. In a short time, all the products which the company launched at its newly established engineering and steel works at Kutch have been recognized as brand leaders.

DIRECTORS :

Mr. Shailesh Bhandari and Mr. Avinash Bhandari, Director of the Company, retires by rotation and being eligible offer themselves for re-appointment.

During the year, Mr. Nilesh Desai, Mr. Ram Singh, Mr. Madhusudan Somani and Brig. Pradeep Krishna Prasad have been appointed as an additional Director of the Company on 5th October, 2005. All are Independent Directors. As per the provisions of Section 260 of the Companies Act, 1956, these Directors hold office only up to the date of the forthcoming Annual General Meeting of the Company. The Company has received a notices under section 257 of the Act in respect of the above persons, proposing their appointment as a Director of the Company, along with the requisite deposit. Resolution seeking approval of the shareholders for their appointment have been incorporated in the Notice of the forthcoming Annual General Meeting along with brief details of the candidates.

Mr. Avinash Bhandari, Director of the Company has been appointed by the board to the position of Whole Time Director for a period of three years from 01/02/2006. Requisite approval of shareholders for his appointment and payment of remuneration is being sought at the ensuing Annual General Meeting

DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to section 217(2AA) of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that:

1. In the preparation of the annual accounts for the year 2005-2006, the applicable accounting standards have been followed.
2. Appropriate accounting policies have been selected and applied consistently and have made judgments 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 financial year and of the profit of the company for the financial year.
3. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities.
4. The Annual Accounts have been prepared on a going concern basis.

RESEARCH & DEVELOPMENT:

Your company, through its Research & development function, is developing a new power efficient process to produce steel through secondary process and is developing motors & controllers for Electric Bikes and Electric Scooters.

The company has a strong R&D team and a great pool of technical talent along with modern computer aided labs, capable of developing new and innovative designs. The company works with leading technological research institution in India for development and testing of its new technologies. The Director's of the company are also promoting an engineering college which will further complement company's initiatives in this direction.

During the year, the R&D team successfully developed several modules of Electric Vehicles, which include two wheelers and three wheelers. Work on Hybrid Electric Bus is also going on at a fast pace.

Styling is becoming an important factor amongst consumers. The company is building strong capabilities in this area and will be able to meet the contemporary customer requirements.

With the increasing complexity and specialization of each business and the accelerating need for bringing in new products speedily to the market place, the R&D and product development has become the main focus and is accorded the highest priority in the company.

AUDITOR'S REPORT:

With regard to point no.B(iv) of the Auditor's Report, your Boards submits that Electrotherm being the largest manufacturer of metallurgical equipment and allied items, has supplied the same to its steel division which have been capitalized at cost. The Third Party Confirmations have also been obtained in number of cases and in certain cases the confirmations are awaited.



HUMAN RESOURCES:

Employees' relations continue to be cordial. Your Company continuously evolves policies and processes to attract and retain its substantial pool of scientific, technical and managerial resources through friendly work environment that encourages initiatives by individuals and recognizes their performance.

Electrotherm has been constantly endeavoring to execute policies and programs for announcing employee competency and capability. To prepare the organization to meet the future challengers from domestic and international players, Electrotherm continuously measures the competency of its employees, evaluates their job profiles, identifies leadership skills and then plans the careers of its human resources. As a people driven organization, Electrotherm always strikes to make optimum utilization of its human resources to surge forward to the future, which is exiting, challenging and complex. The organization culture and commitment of the company to its people is demonstrative by the motivation levels and achievements of its employees. Research & Development and customer orientation are the key elements which are driving the company and the company has set for itself highest standards in these areas. The company has started several initiatives to further sharpen the leadership skills of its executives.

For ensuring cost reduction and cost competitiveness, the company follows Kaizen philosophy and is implementing the same at all its manufacturing units.

It is a constant effort of the company is to develop and make available a strong a human resource pool, which is willing and capable to take on hand the tasks and challenges which lie ahead due to the fast pace of growth of the company.

The company continues to maintain the highest standards in safety and health at work place.

PARTICULARS OF EMPLOYEES:

In compliance with the provisions of Section 217(2A) of the Companies Act, 1956, a statement giving requisite information is annexed hereto.

PARTICULARS OF CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO:

The additional information required under the provision 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 and forming part of the Report, is annexed hereto.

CORPORATE GOVERNANCE:

Pursuant to clause 49 of the Listing Agreement, a corporate governance report along with a Certificate from the Auditors confirming the compliance is annexed and forms a part of this report.

MANAGEMENT DISCUSSION AND ANALYSIS :

Pursuant to Clause 49 of the listing agreement, Management Discussion and Analysis Report is annexed after the Director's Report and forms a part of this report.

AUDITORS:

M/s. Mehta Lodha & Co. Chartered Accountants, Ahmedabad, the present Auditors of the company, retires at the forthcoming Annual General Meeting and has confirmed their eligibility and willingness to accept the office, if re-appointed.

APPRECIATION:

Your Directors wish to place on record their appreciation for the valuable co-operation and support received from the Customers and Suppliers, various Financial Institutions, Banks, Government Authorities, Auditors and Share Holders during the year under review. Your Directors wish to place on record their deep sense of appreciation for the devoted services of the Executives, Staff and Workers of the company for its success.

Date: 29th July, 2006

On behalf of the Board

Regd. Office: Survey No.72,
Village: Palodia, Taluka : Kalol
Dist: Gandhinagar 382115.

MUKESH BHANDARI
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRIAL OVER VIEW:

India has emerged as the fastest growing and democratic free market. India now assumes centrestage in the global economy and must focus its attention towards infrastructure, manufacturing and engineering capabilities. If India today has the twin objectives of becoming Developed Economy and Industrial Super Power by 2020, then the development of the country should be driven by technology and engineering. According to some experts, the share of US in the world GDP is expected to fall from 21% to 18% and that of India to rise from 6% to 11% by 2020, making India as the third leg in global economy after the US and China.

The Index of Industrial Production has grown by more than 10% as compared to 6% three years ago. The double digit robust growth has put the manufacturing sector back into focus, which had earlier shifted to IT and Pharmaceutical sector.

The Indian economy has continued to record high growth rate in the current year and there is every reason to believe that 8% GDP growth rate is sustainable. The growth in infrastructure is continuing rapidly and the country's fiscal policies will ensure that there is no slow down in the economy.

Electrotherm continues to grow at a fast pace. Second year in a row the company nearly doubled its turnover as compared to the previous year. Against turnover of Rs.186 crores last year, the company clocked an impressive figure of Rs.345 crores during the current year. The Profit before Interest, Depreciation and Tax jumped from Rs.17 crores to Rs.45 crores.

The year gone by has been an important year for Electrotherm a year in which we faced unprecedented competition internationally. We met this challenge head on and have successfully tackled this competition and protected our market share.

Your company is essentially an engineering and manufacturing company. The growth is being driven by the company's engineering and manufacturing capabilities. At Electrotherm, the company has embarked on establishing a Waste Heat Power Plant of 30MW at Kutch. This will enable the company to establish an integrated steel and engineering company at Kutch.

FUTURE PLAN

The last few years have been very challenging and of great significance for your company. Your company has been undergoing major transformations in its market segments, business mix, revenue mix and profitability. The company has undertaken an elaborate exercise to re-engineer its revenue mix towards higher value added business with a view to improve shareholder value.

From a single product and single market segment company, your company has matured into a diversified enterprise.

Engineering, Capital Equipment and Project Division:

The engineering, capital equipment and project division will continue to focus on providing metallurgical solutions to the industry by making available to them superior products and technologies. Your company expects that exports will become a major component of revenue in this segment. The existing scale of operations have demonstrated our project execution and management capabilities and our strong cash flows in this segment coupled with a huge reservoir of human and intellectual capital has created a unique opportunity for future growth. Your company has signed an MOU with Beichen Hi Tech Industrial Park, Tianjin, China to set up an engineering unit in this industrial park. This will enable the company to make a foray into the fast growing Chinese steel and foundry market.

Construction Steel Division:

Last year your company entered the construction steel industry by setting up a steel unit in Kutch district of Gujarat. This venture provides a unique opportunity to your company by becoming a port based steel unit with an access to the ever growing market of Gujarat. The facility will enjoy fiscal incentives announced by the government. With backward integration of sponge iron and with the installation of Waste Heat Captive Power plant in the coming 24 months, your company will become one of the lowest cost construction steel producer in this part of the country. This division becomes the second segment in its revenue mix.

Stainless Steel Division:

Your company pioneered the growth of stainless steel production in the country by introducing MRK (Metal refining Konverter) a few years ago and has now decided to enter stainless steel market by setting up modern facilities in their Kutch plant. The focus of your company will be to produce value added stainless steel bars, both for domestic and international markets. Proximity to Kandla Port will enable your company to make its mark in the overseas market where the appetite for stainless steel continues to grow. We will treat this as our third segment in our revenue mix.

Structural and Alloy Steel Division:

The demand for structural steel and alloy steel continues to grow on account of huge growth in infrastructure, power sector and automobile sector. With unprecedented growth taking place in transmission lines, power distribution, communication and automobiles, your company sees for itself a huge opportunity in this segment which will become its fourth revenue stream.