



ELECTROTHERM INDIA LIMITED

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ANNUAL REPORT

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COMPANY BRIEF

BOARD OF DIRECTORS

Mr. Mukesh Bhandari	: Chairman
Mr. Shailesh Bhandari	: Managing 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

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

REGISTERED OFFICE

A1, Skylark Apartments

Satellite Road,
Satellite, Ahmedabad

Gujarat – 380015

WORKS

Engineering & Projects Division

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

**Steel, Engineering, DI Pipe & Electric Vehicle
Division**

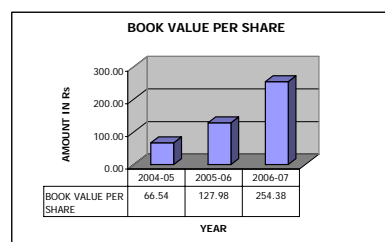
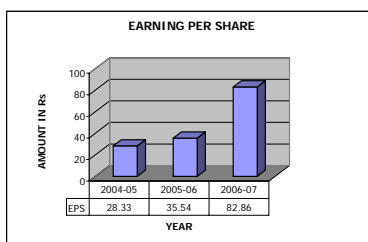
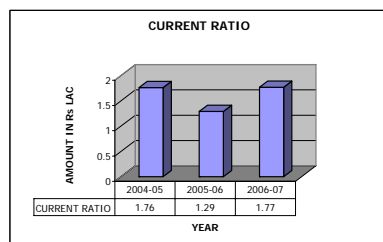
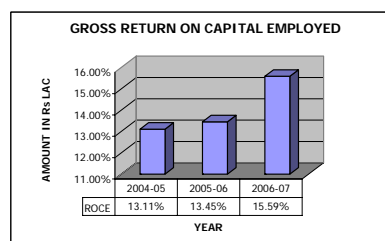
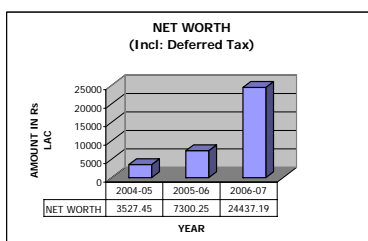
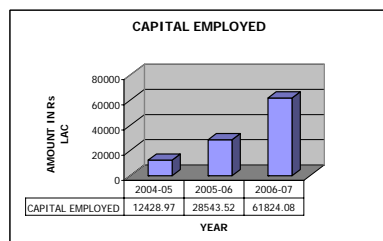
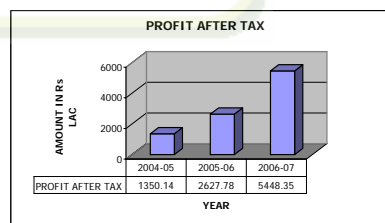
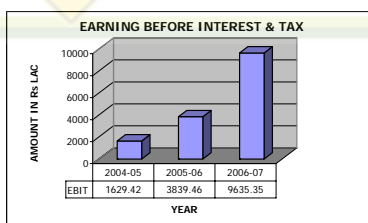
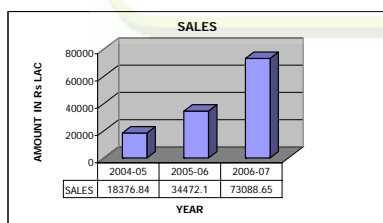
Survey No.325, Village: Samakhiyali,
Taluka: Bhachau, Dist: Kutch

Wind Farm Project

Village: Dhanka Dist: Rajkot, Guajrat

ELECTROTHERM (INDIA) LIMITED FINANCIAL HIGHLIGHTS

DETAILS	2006-07	2005-06	2004-05
SALES (Rs. LACS.)	73088.65	34472.1	18376.84
COMPOUNDED ANNUAL GROWTH RATE (SALES)	89%	89%	89%
GROWTH IN SALES (ANNUAL)	112%	88%	221%
EARNING BEFORE INTEREST & TAX (EBIT) (Rs. IN Lacs)	9635.35	3839.46	1629.42
GROWTH IN EBIT (ANNUAL)	151%	136%	852%
PROFIT AFTER TAX - (Before Deferred Tax) (Rs. IN LACS)	5448.35	2627.78	1350.14
GROWTH IN PROFIT AFTER TAX (ANNUAL)	107%	95%	1692%
CAPITAL EMPLOYED (Rs. IN LACS.)	61824.08	28543.52	12428.97
NET WORTH (Rs. IN LACS.) (Incl.: Deferred Tax)	24437.19	7300.25	3527.45
OPERATING PROFIT/ NET SALES	7.45%	7.62%	7.35%
GROSS RETURN ON CAPITAL EMPLOYED (ROCE)	15.59%	13.45%	13.11%
DEBIT/ EQUITY RATIO	1.35	2.16	2.06
CURRENT RATIO	1.77	1.29	1.76
EARNING PER SHARE (Rs.)	82.86	35.54	28.33
DIVIDEND RATE	20%	20%	15%
BOOK VALUE PER SHARE (Rs.)	254.38	127.98	66.54
PE RATIO	5.50	8.06	2.78



COMPANY'S VISION

Vision:

A world class engineering major, catering to manufacturing and metallurgical sector along with leadership in electric vehicles.

Core Values:

- Business ethics
- Customer Focus
- Professional pride
- Mutual Respect
- Speed and innovation
- Excellence in manufacturing
- Total quality

Corporate Mission:

Develop and provide reliable metallurgical equipment, products and services at competitive prices, integrating best manufacturing practices and providing innovative and eco friendly technologies and products for the benefit of the society.

Corporate Objectives:

▪ **Business Portfolio Growth:**

- To further consolidate Electrotherm position as a leading supplier of metallurgical equipment in national and international market.
- To grow its engineering capabilities by providing turnkey solutions to the customers and implement projects from concept to full commercialization.
- To diversify across the electric vehicle business to become a leading player in battery operated vehicles in the country.
- To establish a strong product and services brand in the domestic and international market.

▪ **Customer Focus:**

- To develop a special relationship with customers to ensure not only customer delight but customer success.
- To expand the relationship with existing customers by offering additional services in engineering, energy conservation strategies, environment protection technologies and best operating practices.
- To expand the customer base by providing them with newer products.
- To use customer feedback for design improvement and new product development.

▪ **Dynamic Corporation:**

- To develop an agile and effective organization which adopts and adapts to the changes in business environment by continuously assessing the opportunities and encashing them and evaluating the threats to mitigate them.
- To develop a learning organization having technology based competitive edge in current businesses and future initiatives.

▪ **Performance:**

- To continuously improve the performance with emphasis on cycle time reduction and cost control in order to sustain long term competitiveness.
- To improve on project execution time and cost to ensure long term viability.
- To operate and maintain the manufacturing facilities at par with the best-run engineering and metallurgical companies in the world with respect to productivity, equipment availability, operational reliability and product quality.
- To achieve quality by embedding the best practices in all systems and processes.

▪ **Human Resource Development:**

- To enhance commitment of employees by rewarding and recognizing superior performance.
- To imbibe a culture of team building, innovation, empowerment and openness in order to align all individuals towards the company's goals.
- To build and sustain a learning organization of competent world class engineers and professionals.

▪ **Financial Soundness:**

- To continuously strive to reduce cost of capital through prudent deployment of funds.
- To develop sound commercial policies which ensure reasonable returns and remuneration

▪ **Environment Protection:**

- To contribute to reduction in global warming and pollution by encouraging and developing environmental friendly technologies and products.
- To become a lead player in developing electric and hybrid electric vehicles which not only lead to cleaner cities but also will reduce consumption of liquid fuel which is largely imported by the country.

▪ **Research & Development:**

- To continue efforts in developing cost effective, reliable and efficient technologies for Indian and overseas customers.
- To pass on the benefit of Research & Development to the customers.
- To carry out research in development of alternate fuels and technologies.

CHAIRMAN'S MESSAGE

Dear Shareholder,



Electrotherm has yet again delivered impressive results. While the competitive environment remained hyperactive, your company with its excellent product range has been undergoing a major transformation in its marketing approach, market segments, business mix, internal processes and systems to improve its revenue mix and profitability. We have achieved all these which have resulted in excellent value addition to our customers.

It gives me great pleasure to inform you that we have once again more than doubled our last year's turnover. The current year's turnover stands at Rs.731 Crores as against Rs.345 crores of the last year. All this has been possible and your company has been able to scale such heights due to dedicated and committed management team. Your company is fortunate to have a talented and dynamic person like Mr. Shailesh Bhandari who now takes over as Managing Director of the company. This is not a sudden change and for the last two years practically the overall responsibility of the company rested on his shoulders. Besides him, your company is lucky to have many other highly qualified and talented managerial personnel who continue to guide the company and manage the change necessitated out of huge growth.

I will continue to steer the company with focus on Research & Development and in improving the various technologies used by the company. Manufacturing is witnessing increased competition, complexity and costs. Electrotherm has strong fundamentals and technology wise your company is quite competent. Most Indian companies are either engaged in re-engineering or are manufacturing under technology transfer arrangements. At Electrotherm we do not believe in copying others but are focused on customer requirements to identify future market needs. In the short run one needs cost competitiveness but in the long run it is necessary to launch new products. This is where we are concentrating. We are faced with three main challenges: cost reduction, productivity improvement and fast speed in converting market requirements to design and manufacturing. As cost reduction is essential for ensuring the bottom line of manufacturing companies, getting newer products to the market rapidly has become a necessity. To meet these challenges of costs, productivity and speed, at Electrotherm we are embracing new technologies, processes and concepts such as lean manufacturing, just in time production, work flow technologies and work flow automation.

Economic conditions around the world have been very encouraging. Global growth which was 4.8% in 2005 reached 4.9% in 2006 and is expected to hover around this level in the current year also. While the Chinese economy is growing at around 10% without any signs of slow down, the Indian economy is also continuing to grow at more than 8%. In the coming years, I am expecting that the Indian economy will be booming owing to the heavy demand on infrastructure. Energy sector is growing by leaps and bounds as it is receiving the highest attention of both the State Governments and Central Government.

India has moved from an agrarian economy to a manufacturing economy. The manufacturing sector now contributes around one-fourth of the total GDP and the industrial output has now crossed USD 65 Billion in value.

Global steel production is continuing its growth and the production in 2006 crossed 1.2 billion ton mark. In spite of some control measures adopted by Chinese Government the crude steel registered an impressive growth and has crossed 450 million tons. India is also witnessing a huge growth in steel production and it is expected that steel industry will continue to grow by more than 12% per annum.

Sustainable economic growth of India as well as rest of the world will depend on effective energy planning. Nearly 40% of the world's energy comes from petroleum. Natural gas contributes to another 20% and these two natural resources account for 60% of the world's energy. The growth in consumption of oil and natural gas in the past has been such that the consumption has been doubling every 15 years. This trend is likely to continue and will lead to complete depletion of natural resources in next 30 years.

It is significant to note that more than 20% of the world's total primary energy is consumed in transportation. There are more than 410 million cars currently in the world and in another 20 years the automobile population will reach one billion mark. It is also significant to note that after 1970 the new oil discoveries have been very few and any new discoveries will not make any significant contribution to the world's energy pool.

Transportation sector which consumes a large share of energy resource of the country also contributes significantly towards pollution. We at Electrotherm have made it our mission to provide vehicles which are emission free, which do not use petroleum products and which are inexpensive to acquire and operate. Our launch of battery operated YoBykes has been highly successful and Electrotherm is now developing several new vehicles for the Indian market. Our launch in India has developed interest for our vehicles for international market also and in the future we will be exporting these vehicles to other countries. Electrotherm will continue to provide leadership in this segment by delivering innovative, cost effective, practical and environmental friendly electric vehicles. Economic and environmental forces are frequently pitted against each other and many a times the financial cost of environmentally friendly technologies and goods is so high that one has to strike a balance or look for Government subsidies. Our Electric Vehicles are unique in this aspect as they are not only economical but also environment friendly. You will be pleased to note that the "2007 Overdrive Automotive Product of the Year" award was given to YoBykes of Electrotherm.

Your company has always relied on quality and technical excellence in providing goods to the customers which are consistent in their performance. The technical team is always striving to provide better and better designs and the service team is always at the beck and call of the customers to ensure full satisfaction. For the last two years your company has been focusing on turnkey projects in overseas market. In the coming year you will find that several projects have moved from the drawing board to the green field and substantial revenues are expected from this activity in the current financial year.

I would like to place on record my sincere thanks to our shareholders, for their continued trust in the management of the company. Special thanks go to the management of ICICI Group which has expressed their faith in our company. Your company has recently allotted 13.68 lacs share to M/s The Western India Trustee and Executor Company Ltd (India Advantage Fund VI), through their investment managers M/s ICICI Venture Fund Management Company Ltd. With this investment, they become one of our major shareholders and we are looking forward to their contribution in guiding us on our growth strategy.

I also want to convey my thanks to our bankers, customers, suppliers, auditors, legal advisors, consultants and other business associates as well as various government authorities for their continued support to our company.

My appreciation also goes to my colleagues on the Board for their guidance and advice as well as to all the employees of Electrotherm, without whose dedication and contribution, we would not have been able to achieve the growth and continuous improvement in our business.

Thank you.

MUKESH BHANDARI
Chairman



MANAGING DIRECTOR'S MESSAGE



Dear Shareholder,

Alvin Toffler in his book “Future Shock” said that future belongs to those who can learn, unlearn and relearn. At Electrotherm with the fast pace of changes and growth we are learning, we are unlearning and we are relearning constantly. The foundation of success of Electrotherm is not merely because of the ambition of its management but on account of passion to innovate and excel.

The only reason your company is different from many others is that it is able to leverage economies of its knowledge bank. Leveraging economies of knowledge is very high on our agenda. We spend a substantial amount on R&D every year. However in research there cannot be economies of scale, there can be only economies of ideas. The business world is undergoing a transformation from mass production system where the principle source of value was human labor to a new era where the principal component of value creation, productivity and economic growth is knowledge. We feel that a large component of our market capitalization will be on account of intangible assets such as know-how and skilled man power.

Today at Electrotherm we divide various jobs into 3 categories:

- Transformational jobs
- Transactional Jobs
- Tacit jobs

The first two categories are conventional in nature and it is easy to find people who can carry out these jobs. The transformational jobs are related to conversion of raw materials into finished goods. Transactional jobs are related to various interactions with vendors, suppliers, customers, bankers, consultants and other associates.

The third category of tacit jobs is most important. These include complex interactions requiring high level of judgment. It is in this category that it is most difficult to find people. I am proud to admit that your organization has adequate number of people to manage complex issues and use their judgment and we are continuously striving to add more people in this category.

Your organization is a vibrant company and our Chairman continues to develop newer products every day which need commercialization. This leads to two clear implications. The first is that intellectual capital (know-how and ideas) has become key source of value. The second is an increasing dependence within the organization on the people who generate this intellectual capital. These clever people are today the back bone of your company which is full of ideas.

However economic success does not come from only knowledge and know-how. Our challenge is to align all these creative individuals and inspire them to not only achieve their fullest potential as individuals but to do so in a way that creates wealth and value for all the stakeholders.

It is important to be dynamic and take actions with aim to win instead of basking in one's knowledge and accepting the things as they are. It is this action which can transform our organization to one that we desire instead of one that is destined. The new mind set of Electrotherm is going to be more for action instead of only knowledge orientation. Whether at cricket field or in the competitive environment of business, this emphasis of action and winning will ensure success instead of having emphasis only on knowledge and skills.