




PRAJ INDUSTRIES LIMITED

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14th Annual Report

1999-2000

PRAJ INDUSTRIES LIMITED

BOARD OF DIRECTORS : **Pramod Chaudhari** Chairman & Managing Director
Shashank Inamdar Joint Managing Director
Venkatachala Datar
Berjis Desai
Khushrooh Byramjee
K.R.Bharat

COMPANY SECRETARY : **Deepak Mogal**

AUDITORS : **B.K.Khare & Co.**
Chartered Accountants,
706/708, Sharda Chambers,
New Marine Lines,
Mumbai 400 020

BANKERS : Bank of Maharashtra
Bank of India
Union Bank of India
The Vysya Bank Limited

REGISTERED OFFICE : "PRAJ HOUSE", Mumbai-Bangalore Highway,
Opp. HEMRL, Bavdhan, Pune 400 021. INDIA

MANUFACTURING FACILITY : S.No.748, Sanaswadi, Pune 412 207

R & D CENTRE : "PRAJ HOUSE", Mumbai-Bangalore Highway,
Opp. HEMRL, Bavdhan, Pune 400 021. INDIA

DIRECTORS' REPORT

To The Members of Praj Industries Limited,

Your Directors are pleased to present the 14th Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2000.

1. OPERATING PERFORMANCE

In the year under review the Company registered a turnaround in its financial performance with a total income of Rs.507.080 million (previous year Rs.428.117 million). Your Company has registered a profit from operations of Rs.23.489 million (previous year losses of Rs.78.194 million). This was largely due to a shift in its operations strategy from top-line driven business to better value-addition.

2. OPERATIONS

2.1 Business - Domestic

In the core area of operations, your Company took up every opportunity to improve value addition.

The Fermentation and Distillation business related to ethanol production is throwing up opportunities in the form of modernization and expansion. Majority of the sales turnover was from modernization business, a value driven proposition for the Company.

In the Brewery Engineering business too, the advent of foreign players **has thrown up a good cause for the market to grow.**

Fruit processing and other businesses **are steadily growing.** It was the second year for Corrugated Tube Heat Exchangers and your Company has strengthened its presence in the market.

Your Company has made a modest beginning in offering specialized engineering packages to the Process Industry. In times to come, it will certainly strategize the business with greater focus.

2.2 Business-International:

As part of its overall growth strategy, your Company decided to penetrate the markets in South, Central America and Caribbean region. To meet this objective, a representative office has been opened in Bogota, Colombia. A breakthrough order has been received from the region. In the coming years, your Company plans to become a major player in the region. Another market, which was taken up in the last financial year, was the African region. Your Company has supplied plant and equipment to Nigeria and Tanzania and is looking at a major breakthrough in turnkey orders from the region.

South East Asia is a region wherein your Company has a strong presence and with the resurgence in some of the economies in the region, it is strongly placed to optimize its presence.

Your Company continues to locate markets of interest and in its efforts, will deploy the most modern methods of information gathering and networking.

3. BUSINESS ORIENTATION

3.1 Value-Added Solutions

Being a technology and engineering Company, the focus of performance measurement has shifted to better manpower deployment and utilization. 'Value-addition' a keyword in knowledge driven industry is being implemented.

3.2 Improved Business Cycle

Your Company has been working on improving its 'order to execution' cycle with better order mix and better understanding of client profiles. Partial success has been achieved in this direction. This also results in better value realization and more effective deployment of human resources.



3.3 Innovation and Patents

Your Company has renewed its Research and Development directions. R & D will not only provide business portfolio extension, but will also support current portfolio. For example, the wastewater treatment system for Distilleries aims to overcome the stringent pollution control norms and provide an optimized, workable solution for the Distillery. At the heart of the system is the introduction of Biotechnology in a traditional composting plant, which reduces the cycle time and yields more consistent quality of compost. This new technology is developed In-house and your Company has incurred expenditure of Rs. 8.89 million towards development of this new thchnology including Pilot Plant for the same.

As on date your Company has spent Rs. 18.560 million towards R& D Equipment and infrastructural facilities for R & D activities. This year your Company has incurred revenue expenditure of Rs. 1.991 million for R & D operations. (Previous Year Rs. 1.890 million)

3.4 International/Professional Recognition

The Government of India, Department of Science and Technology has recognized the potential of the new composting technology as a holistic solution to 'Distillery Wastewater Treatment and Utilization'. On this merit, it has awarded a grant of Rs.4.900 million under the PATSER scheme.

Your Company has been awarded the ISO 9002 for its manufacturing facility located at Sanaswadi, Pune for a range of equipment.

The ASME (American Standard for Mechanical Engineers) H & U stamp certification for the design and manufacturing activity has further enhanced the recognition for your Company as a supplier of reliable and quality equipment and systems. The ASME accreditation will also improve competitiveness in markets where your Company has to pitch in either with, or against European and US manufacturers and engineering Companies. It will also open a hitherto untapped market of Middle East where application in refineries and power generation will form a substantial business. Your Company will be working with other engineering Export Houses in India to enhance its reach.

4. HUMAN RESOURCES

Your Company's employee base consists largely of engineers from premier engineering institutes like IIT, UDCT and RECs. Skills required for its present and future business avenues are present in-house.

Your Company has also initiated a cross-functional and reorientation programme to develop current manpower in future skills requirement. This includes marketing and sales orientation for the project engineering staff, plant and systems orientation for the business group personnel and many such other initiatives.

5. CORPORATE BUSINESS**5.1 Term Loan :**

Your Company had obtained Term Loan from ICICI for augmenting working capital resources and the same was being repaid in quarterly instalments. The outstanding as of year end was Rs.12.900 million however, the said balance was fully repaid by 30th June, 2000.

5.2 Listing Fees :

The Company's shares are listed on National Stock Exchange of India Limited; The Stock Exchange, Mumbai; The Pune Stock Exchange Limited and The Stock Exchange, Ahmedabad. The Annual Listing Fees for 2000-2001 has been paid to all the said Stock Exchanges.

5.3 Registrar & Transfer Agents (For Electronic Mode only) :

Intime Spectrum Registry Pvt. Ltd., 260, Shanti Industrial Estate, Sarojini Naidu Road, Mulund (W), Mumbai 400 080 are the Company's Registrar & Transfer Agents (for electronic mode of shareholding only). The Company has in-house share transfer department for physical mode of share transfer.

5.4 Electronic Shareholding & Trading :

As on 30th June, 2000, 91% of the Company's equity was in electronic mode. SEBI has directed the trading of the Company's scrip in electronic mode only w.e.f. 15th March, 2000.

5.5 Private Placement of Equity Shares :

In the third quarter of 1999-2000, your Company privately placed 25,00,000 Equity Shares of Rs. 10/- each at a premium of Rs. 10/- each, to bring in Rs.50 million to fund its global expansion plans.

5.6 Change in Status :

Your Company previously was subsidiary of Praj Engineering Limited. However, consequent to Preferential Issue of Equity shares in October, 1999, the stake of Praj Engineering Limited got diluted and your Company ceased to be its subsidiary.

5.7 Change of Name :

In response to the growth strategy initiated during 1999-2000, your Company has identified biotechnology led processes and systems as a major direction for growth. This is also in keeping with the Company's vision to provide innovative solutions. In the core areas of bio-chemical and bio-engineering, where your Company is presently focusing, new directions will emerge from effective blending of chemical engineering fundamentals along with life sciences and microbiology. Your Company has been successfully employing these techniques in its present markets through its current businesses.

As a prerequisite to further its strategy, your Company is involved in evaluating some more options and also creating an internal focus. An important step in creating a shift in internal and external perception and understanding is a change in name of the Company. The special resolution regarding change in name has been proposed and passed at the Extraordinary General Meeting of the Company held on 27th April, 2000. It has been resolved that your Company's name will be changed to 'PRAJ BIOTECH SYSTEMS LIMITED'. The change will be effected only after completing relevant actions and procedures in line with the strategy, in due course.

5.8 Y2K COMPLIANCE :

The business systems, hardware, machines, equipment, process control and embedded systems of your Company rolled over to the year 2000 smoothly and are functioning normally.

6. ACCOUNTS :

In conformity with the mandatory accounting standards, the significant accounting policies have been indicated in Schedule 21 (Item 1) of the accounts.

7. PARTICULARS OF EMPLOYEES :

The information required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 for the year ended 31st March, 2000 is given below :

Sr. No.	Name and Age	Qualification	Date of Commencement of employment	Designation (Nature of Duties)	Gross Remuneration (Rs.)	Last Employment and the (Years)	Experience period in years
EMPLOYED THROUGHOUT THE YEAR :							
1.	Mr. Pramod Chaudhari (50 Years)	B.Tech (Mech)	08.11.1985	Chairman & Managing Director	Rs.1,579,908/-	Rapicut Carbides Ltd. (2)	28
2.	Mr. Shashank Inamdar (45 Years)	B.Tech (Chem)	13.12.1985	Joint Managing Director	Rs.1,215,295/-	GIA Consultants (3)	21

NOTES :

- 1) Gross remuneration shown above includes Basic Salary, Services, R.F.A., Books, Attire, Ex-Gratia, Superannuation, Employer's Contribution to P.F.
- 2) No Director is related to any other Director.

8. FIXED DEPOSITS

The Company has not accepted / renewed any deposits after 25th September, 1998. Deposits of Rs.5000/- due for repayment on or before 31st March, 2000 were not claimed by depositors, as on that date.

9. CONSERVATION OF ENERGY, TECHNOLOGY, ABSORPTION, ADAPTATION, INNOVATION**9.1 Conservation of Energy :**

The manufacturing operations of your Company are not energy intensive as the operations are limited to machining, metalworking and finishing of a variety of equipment.

9.2 Technology Absorption, Adaptation, Innovation :

Your Company has intensified its innovative developments and is all set to introduce a number of cost-effective solutions for fermentation, distillation, heat transfer and wastewater treatment in the process of Biomass transformation.

Your Company's R & D center has activated a new programme to improvise current processes. An innovation in the current practice of composting for distillery effluent treatment and recycle is being tested on pilot scale. This will open a new line of business for the Company.

10. FOREIGN EXCHANGE EARNINGS & OUTGO

Particulars regarding the foreign exchange earnings and outgo are presented in Schedule 21 (Items 11) of the Audited Accounts. Your Company has retained its status as a net forex earner.

11. DIRECTORS

Mr.Berjis Desai retires by rotation in terms of Article 82 and Article 83 of the Articles of Association of the Company and he being eligible offers himself for re-appointment.

The term of office of Mr.K.R.Bharat, appointed as Additional Director on 16th October, 1999, will expire at the commencement of the ensuing Annual General Meeting and he being eligible offers himself for re-appointment.

12. AUDITORS

The Auditors, M/s B.K.Khare & Co., Chartered Accountants, 706/708, Sharda Chambers, New Marine Lines, Mumbai 400 020 retire at the conclusion of the 14th Annual General Meeting. They are eligible for re-appointment and have expressed their willingness to continue as Auditors, if re-appointed.

13. ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the support which the Company has received from the Government Agencies, Financial Institutions, Bankers, Suppliers and Customers and, most importantly, our Employees.

FOR AND ON BEHALF OF BOARD OF DIRECTORS

Pune, 14th August 2000

PRAMOD CHAUDHARI
CHAIRMAN & MANAGING DIRECTOR

AUDITORS' REPORT

To,
The Members of
PRAJ INDUSTRIES LIMITED

We have audited the attached Balance Sheet of **PRAJ INDUSTRIES LIMITED** as at 31st March, 2000, and the Profit and Loss Account of the Company for the year ended on that date. We report as follows:

1. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988, issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph (1) above :
 - (a) We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit.
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from branches not visited by us.
 - (c) The Profit and Loss Account and Balance Sheet dealt with by this Report, are in agreement with the books of account.
 - (d) In our opinion, the Profit & Loss Account and Balance Sheet comply with the Accounting Standards specified under sub-section (3C) of section 211 of the Companies Act, 1956.
 - (e) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, read with the notes thereon more particularly note no. 8 of schedule 21 give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view :
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2000 and
 - ii) in the case of the Profit and Loss Account, of the Profit of the Company for the Year ended on that date.

For B.K.KHARE & COMPANY
Chartered Accountants

Place : Pune
Date : 14th August, 2000

U.B.JOSHI
Partner

ANNEXURE TO AUDITORS' REPORT

(Referred to in paragraph 1 of our Report of even date)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. All the assets have not been physically verified by the management during the year but there is a regular programme of verification, which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. The Company is in process of reconciliation of Physical Inventory of Fixed Assets with book records.
2. None of the fixed assets have been revalued during the year.
3. The stocks of finished goods, stores, spare parts and raw materials have been physically verified during the year by the management, except in respect of stocks lying with sub-contractors and fabricators from whom confirmations have been obtained. In our opinion, the frequency of verification is reasonable.
4. According to the information and explanations given to us, in our opinion, the procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on physical verification of stocks as compared to the book records were, in our opinion, not material.
6. On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper, in accordance with the normally accepted accounting principles and is on the same basis as in the preceding years.
7. The Company has not taken / granted any loans from / to Companies, firms or other parties listed in the Register maintained under Section 301 of Companies Act, 1956 and/or from / to Companies under the same management, as defined under the then applicable section 370 (1-B) of the Companies Act, 1956.
8. Parties to whom loans and advances in the nature of loans have been given are repaying the principal amount as stipulated and are also regular in payment of interest, where applicable.
9. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and nature of its business with regard to the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and with regard to the sale of goods.
10. There are transactions in respect of services rendered / received, made in pursuance of the contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 50,000/- (Rs. Fifty Thousand only) or more in respect of each party. As informed to us, such services are of specialised nature, hence the comparative prices are not ascertainable.
11. As explained to us the Management has reviewed the stocks of stores, raw materials and finished goods and based on technical evaluation in respect of its usability for unserviceable or damaged items, no provision has been made during the year
12. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules 1975, with regard to the deposits accepted from the public.
13. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable

scrap. As explained to us, the manufacturing process of the company does not generate any by-products.

14. The Company has internal audit system. However, in our opinion, its scope and coverage, needs to be strengthened to make it commensurate with the size of the Company and nature of its business.
15. The Central Government has not prescribed maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 for any of the products of the Company.
16. According to the records of the Company, Provident Fund and Employees State Insurance dues have been regularly deposited during the year with the appropriate authorities.
17. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Sales Tax, Customs Duty and Excise Duty were outstanding as on 31st March, 2000 for a period of more than six months from the date they became payable.
18. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
19. The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
20. In respect of service activities :-

The Company has a reasonable system of recording receipts, issues and consumption of materials and stores commensurate with the size and the nature of its business. The system provides for a reasonable allocation of materials to the relative jobs but it is not considered necessary by the management to allocate man-hours consumed to the relative jobs. In our opinion, there is a reasonable system for authorisation at proper levels, with necessary controls on the issue of stores and allocation of stores and labour to jobs. There is an adequate system of internal control commensurate with the size of the Company and the nature of its business.

21. All investments are held by the Company in its own name.

For B.K.KHARE & COMPANY
Chartered Accountants

Place : Pune
Date : 14th August, 2000

U.B.JOSHI
Partner