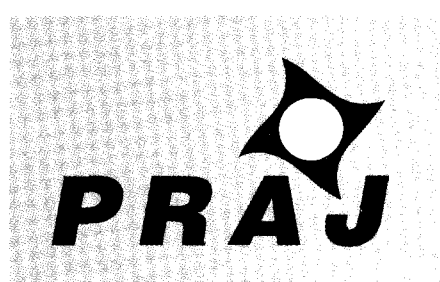


driving sustainability driving future

annual report 2003-04



- ✦ Turnover crossed Rs. 1 billion milestone
- ✦ Increase in Turnover almost 25% with over 100% increase in PBT and over 200% increase in PAT
- ✦ Back on dividend paying list
- ✦ EPS up from Rs. 2.99 to Rs. 10.03
- ✦ Carry forward order position at the beginning of FY 2004-05 at over Rs. 1200 million with more than 40% from export regions
- ✦ Marketshare in fuel ethanol plants at over 70% in India
- ✦ ICRA rates Short Term Debt Programme at P1
- ✦ Accorded Export House Status
- ✦ Re-certification for ASME H & U stamps

Living Innovation
Chairman's Statement
Directors' Report
Management Discussion & Analysis
Corporate Governance Report
Auditors' Report
Balance Sheet
Profit & Loss Account
Schedules
Consolidated Accounts
Annual Accounts of Subsidiaries

Living innovation.

Driving future.

Matrix

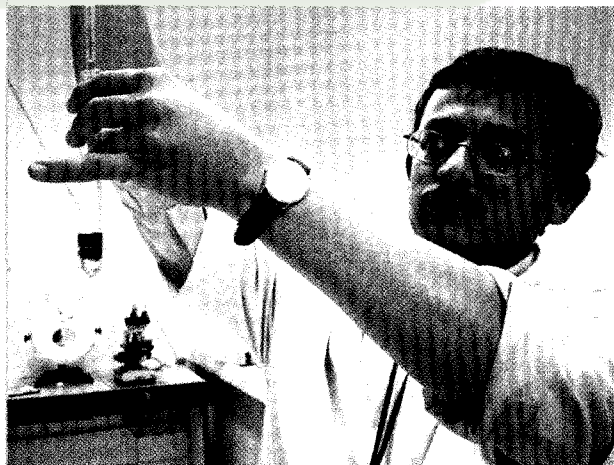
A visitor to MATRIX-The Innovation Centre once remarked, "You don't create innovation, you live innovation". And, that is exactly what we do. Not only in the area of technology, but also in every other area of work we constantly ask ourselves – are we making a difference? Because, it is this difference that creates value for our stakeholders.

Be it the study of 'carbohydrate chemistry for industrial use'; balancing productivity viz. resource utilization; process customization or reducing wastewater volume; re-engineering project related activities to fit into a given time; finding the uses for a new raw materials;

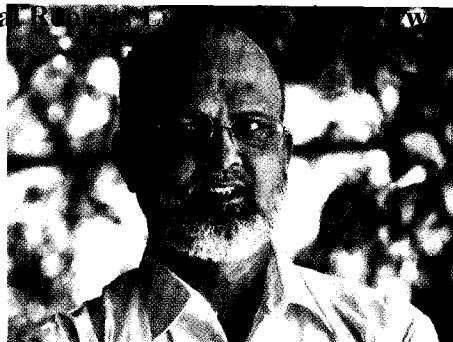
we bring to fore various disciplines like agrotechnology, process biotechnology, process engineering and process chemistry.

Renewable energy is a subject in focus which leads to sustainable development and energy crops is an extension of that focus. We are committed to finding viable alternate energy crops including cellulosic biomass for ethanol production which will not only make eminent economic sense, but also create environmental values.

With an eye on the future, we will continue to innovate and sustain the pace of innovation.



Chairman's statement



driving sustainability driving future

Over the past three years since we consolidated our business, we have achieved improvement in our performance for the third year consecutively.

I have often encountered the question whether this growth is sustainable? Growth and Sustainability are seemingly paradoxical and yet when combined they can and do deliver powerful results. In fact, our 'business strategy map' has taken into account growth factors which will **drive sustainability into the future**. As we change gear in order to bring in quantum jump in performance, we have already begun work on several organizational agendas, going beyond mere financials.

Ofcourse Revenue Growth is foremost amongst them followed by **Operational Efficiency, Innovation, Reputation Management, Customer Retention, Management of Intellectual and Human Capital; InnoVision;** leading to enhanced **Shareholder Value**.

Revenue Growth

As we intensify our operations in the international markets, we expect to see a lot more changes in the topline as well as bottomline growth. Our per order intake value will be higher and we will derive the benefits of our investments in technological improvements and innovations through value addition to our business. International order as a percentage of total order booked was over 40% of the total order intake, during the year. We will see a marked increase on this front in the coming years.

Operational Efficiency

We constantly benchmark productivity norms against some of the leading knowledge based Companies in the IT/BT and engineering sectors. These norms drive our systems outside in and identify areas of improvement not only in terms of work output, but also in terms of overall resources utilized in the delivery of the systems. We have transformed our work practices, integrated application of IT tools to speed up processes, re-engineered certain activities, initiated and implemented ISO 9001 2000 at our manufacturing facility, in the shortest period.

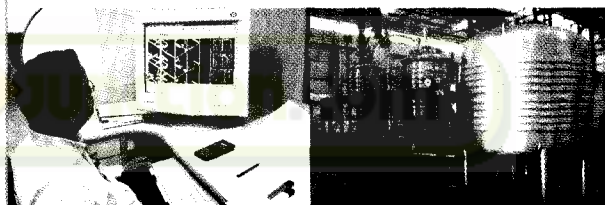
PBT per
employee

01-02

02-03

03-04

Rs. 0.45 million

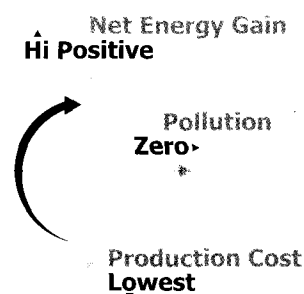


We have created flexible teams in order to respond to the ever changing market requirements. To focus on the South American projects, we established a separate project team which will operate out of Colombia with support from India. This way we will be more in control of logistics which is the most critical factor in project completion.

Innovation

Innovation has been strung into the very DNA of our organization. This year we have decided to give it a special thrust that will speed up the process.

In order to bring in more sustainable developments to the customer, we have to be able to consider all aspects of that development – Economic, Environmental and Efficiency related. We have already identified projects that will benefit a much larger spectrum of stakeholders and the society at large. Some concerns of the future which have been factored in are scarcity of fresh water, pollution and wastewater reduction and ofcourse lower resource utilization in terms of energy.



Our process, design and engineering is guided by a single thought: 'how to make our plants NET ENERGY HI-POSITIVE'. Simply put, it means the process must generate much more energy than it takes in.

Customer Retention/Attraction

Customer retention is not a mere business philosophy. It also translates into good operating practice for us. Repeat customer statistics show that we have been constantly improving on this parameter as we grow. This not only enhances our reputation, but also enhances employee morale. In fact, the positive relation between exceeding customer expectation and image perception of PRAJ and is also evident in the employee survey that we conducted recently wherein employees have accorded foremost importance to these factors.

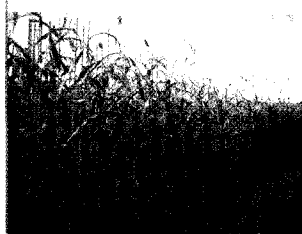
Herein lies the key to managing intellectual and human capital. Being a firm believer in Entrepreneurial style of management, I have personally instilled these thoughts in every employees' mind – 'Own the customer' and the results will follow. Some of the basic qualities we espouse and encourage amongst our employees are high degree of commitment, professional and responsive attitude, determination to meet stringent deadlines and last but not the least empathy.

Reputation Management

As we move into our new phase, we would like to sustain the values which accord us our reputation as a 'preferred supplier' of technology and engineering solutions. Customer care, employee participation, stakeholder values do make tremendous economic sense to our business and will be top priority. Our responsibilities as a corporate citizen in enhancing the quality of life beyond the realms of our corporate charter is something we are mindful of.

InnoVision

Our programme to introduce sweet sorghum as a viable alternate feedstock for ethanol production was partly driven by the challenges of 'water scarcity' which affects the farmers in large parts of India. Upon preliminary study, we were excited to know that this promising crop can be grown and processed similar to sugarcane at only 60% of the cost. Today, PRAJ is the only corporate which has worked out the entire chain of Sweet Sorghum to Ethanol process and got it right (first industrial demo trial has been quite encouraging).



Shareholder value

It is a sum total of all the activities we undertake. Well thought out actions in conjunction with environment friendly policies will always have a positive fall out on enhancing shareholder value.

In the end, it gives me tremendous pride to share that our in-house developmental effort has encouraged us to take on any and every competition world over and we have the results of this in our recent success in Colombia where our technology built the confidence in our customers enough to accord us the honor of acquiring 100% market share.

While there have certainly been moments of glory during the year, we will treasure them and keep on working towards a stronger organization.

An organization driving sustainability.

An organization driving the future.

Pramod Chaudhari

Company

information

Board of Directors

Pramod Chaudhari - Chairman
Shashank Inamdar - Joint Managing Director
Ajit Lele - Joint Managing Director

Venkatachala Datar

Berjis Desai

Diwakar Nimkar

Sivaramakrishnan S. Iyer

Rakesh Jhunjhunwala

Dr. R. V. Chaudhari

Company Secretary

Deepak Mogal

Registered Office

"PRAJ HOUSE",
Bavdhan, Pune 411 021

R & D Center

Matrix - The Innovation Center
"PRAJ HOUSE",
Bavdhan, Pune 411 021

Manufacturing Facility

S. No. 748, Sanaswadi,
Pune 412 207

Offices

India

Bangalore

Delhi

Pune

Overseas

Bogota, Colombia

Johannesburg, South Africa

Singapore

Bangkok, Thailand

Auditors

B. K. Khare & Co.
Chartered Accountants,

Internal Auditors

G. D. Apte & Co.
Chartered Accountants,

Bankers

Bank of Maharashtra
State Bank of India
ABN Amro Bank N. V.
Canara Bank

Solicitors

J. Sagar Associates

Directors'

report

To The Members of Praj Industries Limited,

Your Directors are pleased to present the 18th Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2004, together with the Notice of Annual General Meeting.

Performance

In the year under review, your Company has recorded a total income of Rs. 1086.575 million (previous year Rs. 882.270 million) This represents an increase of over 23% when compared to the previous financial year. Profit Before Tax also increased from Rs. 47.426 million in FY 2002-03 to Rs. 107.553 million in FY 2003-04. This improved performance can be attributed to the focused approach adopted by the management in terms of overall operations.

	(Rs. in million)	
	2003-04	2002-03
Turnover	1065.188	869.355
Other Income	21.388	12.915
Total Income	1086.575	882.270
Total Expenses	979.022	834.844
PBT	107.553	47.426
PAT	81.381	24.260

Operations

The note on operations of the Company is included in Management Discussion & Analysis.

Dividend

Your Directors recommend a final dividend of Rs. 2.25 per share (22.5%) on the equity shares. This along with the interim dividend of Rs. 2.25 per share (22.5%) already paid, raises the total dividend for the year to Rs. 4.50 per share (45%).

Corporate Business

a) Listing Fees :

Since SEBI has stipulated electronic filing of Annual Report, Corporate Governance Report, Financial Results, Shareholding Pattern etc. on its website <http://www.sebidifar.nic.in>, statements of your Company can be accessed at this website.

The Company's shares are listed on National Stock Exchange of India Ltd. and The Stock Exchange Mumbai. The Annual Listing Fees for 2004-2005 have been paid to both the Stock Exchanges.

Looking at the marginal level of trading on the Pune Stock Exchange Ltd. and The Stock Exchange Ltd., Ahmedabad your Company has de-listed its shares from these stock exchanges during the year under review.

b) Consortium Bankers :

Keeping in line with the growing needs of the business, your Company inducted a new banker in the consortium. State Bank of India joined the consortium of bankers from April 2004 in place of Bank of India. Your Company wishes to place on record their appreciation for Bank of India who have been very supportive of the Company throughout its growth phase.

c) Registrar & Transfer Agents :

Your Company has appointed Intime Spectrum Registry Ltd., C - 13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai 400 078 as Registrar & Transfer Agents.

d) Electronic Shareholding & Trading :

As on 30th June, 2004, 98.69% of the Company's equity was in electronic mode. SEBI has directed the trading of the Company's script in electronic mode only w.e.f. 15th March, 2000.

e) Subsidiary Company :

Pacecon Engineering Projects Ltd. (PEPL) and Praj Far East Pte Ltd. (PFE) are subsidiaries of your Company. As required under section 212 of the Companies Act, 1956, the accounts for the year ended 31st March, 2004 of the subsidiary companies are attached herewith together with statement under

Directors'

report

that section. Pursuant to Accounting Standard No. 21 the consolidated results of your Company after incorporating the results of its subsidiaries viz. PEPL and PFE are enclosed.

Accounts

In conformity with the mandatory accounting standards, the significant accounting policies have been included in Schedule 19 (Item 1) of the accounts.

Particulars of Employees

During the year under review, there were no employees drawing remuneration in excess of the limits specified under section 217 (2A) of the Companies Act, 1956.

Energy Conservation, Technology Absorption, Adaptation, Innovation

a) Conservation of Energy :

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

b) Technology Absorption, Adaptation, Innovation :

This is covered in Management Discussion & Analysis while discussing R & D activities of the Company.

Foreign Exchange Earnings & Outgo

Particulars regarding the foreign exchange earnings are presented in Schedule 19 (Item 20) and outgo are presented in Schedule 19 (Item 19) of the Audited Accounts. Your Company has retained its status as a net forex earner.

Directors

Mr. Diwakar Nimkar retires by rotation in terms of Articles 82 of the Articles of Association of the Company and being eligible offers himself for re-appointment.

Mr. Rakesh Jhunjunwala was appointed as Additional Director with effect from 2nd March, 2004. He holds office upto the date of the ensuing Annual General Meeting. He is eligible for appointment.

Mr. Ajit Lele was appointed as Additional Director with effect from 28th April, 2004. He holds office upto the date of the ensuing Annual General Meeting. He is eligible for appointment.

Dr. R. V. Chaudhari was appointed as Additional Director with effect from 12th July, 2004. He holds office upto the date of the ensuing Annual General Meeting. He is eligible for appointment.

Directors Responsibility Statement

In accordance with the requirements of Section 217(2AA) of the Companies Act, 1956, the Board of Directors confirm that :

In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

The accounting policies which have been selected have been applied consistently and judgements and estimates made 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 the financial year 2003-04 and of the profit of the Company for that period;

Proper and sufficient care have 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 fraud and other regularities;

The annual accounts have been prepared on a going concern basis.

Management

discussion & analysis

Corporate Governance

Your Company conforms to the norms of Corporate Governance as envisaged in the Companies Act, 1956 and in the Listing Agreement with the Stock Exchanges. A report on Corporate Governance, along with the certificate of compliance from the Auditors (attached separately), forms part of this report.

Auditors

a) Internal Auditors

The Internal Auditors, M/s G. D. Apte & Co., Chartered Accountants, Pune have conducted the audits periodically and submitted reports which have been considered while finalising the accounts of the Company by Statutory Auditors and Audit Committee.

b) Statutory 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 18th Annual General Meeting. They are eligible for re-appointment and have expressed their willingness to continue as Auditors, if re-appointed.

Acknowledgements

Your Directors wish to place on record their appreciation towards all associates including Customers, Collaborators, Government Agencies, Financial Institutions, Bankers, Suppliers, Shareholders, Employees and others who have reposed their confidence in the Company.

For and on behalf of the Board of Directors

Pramod Chaudhari
Chairman

Place : Pune

Date : 12th July, 2004

Management Discussion & Analysis

Overall Review

Praj consolidated its leadership position in Distillery and Brewery Plants sector in India. In its elected international markets Praj has carved a niche for itself as a 'supplier-of-choice'. At over 300 references for distillery plants with annual capacity accounting for over 10% of world's production on an annualized basis, Praj has become a key player in the world of ethanol. In brewery, Praj seeks significant position as 'value-added' supplier.

Over the past two years, Praj has been addressing requirements for large capacity plants and has demonstrated its superior design and engineering capabilities to handle such projects. This has enhanced Praj's chances of competing in regions where such plants are 'order of the day'.

As part of its strategy of establishing the Indian Technology Brand overseas, Praj continues to address newer geographical markets. With two new representations in Johannesburg, South Africa and Bangkok, Thailand, your Company plans to open offices in the Middle East and Europe very soon. Praj has effectively established its presence in South America with a significant market share in Colombian Ethanol Projects as well as in Central America and Caribbeans.

Operating Environment & Performance

During the year, geo-political tensions continued to dampen business sentiments in various regions across the world. Consequently, crude oil prices rose sharply. Foreign exchange market also displayed an unpredictable trend.

In the year under review, the appreciation of Rupee against dollar on one hand and the strengthening of Euro on the other created new challenges. Praj took adequate measures to hedge its foreign currency risk through better planning and foresight. However, in the present dynamic situation, the risk remains very real. PRAJ has retained services of professionals to guide the Company in this area. A separate treasury operations has been established to hedge forex risk and profitably deploy surplus funds.

Management

discussion & analysis

Steel products are the main raw materials used in your Company's manufacturing process. While the increase in steel price did create a pressure, your Company has taken timely measures to mitigate this by way of multiple sourcing and better inventory management.

Resources

Praj has undertaken resource planning and optimization measures to address a higher level of performance in terms of project execution and market spread. Praj has evolved a strategy which will act as 'capacity multiplier' like outsourcing of non-core activities and expansion of its current capacity in terms of manufacturing and skilled manpower. Your Company's resources are in line with the expanded business envisaged. Your Company is also building in flexibilities so that overall productivity levels are pushed up.

PRAJ has recently restructured in order to introduce greater accountability and focus on key operations.

Financial Review

In the financial year 2003-04, Praj crossed the milestone of Rs. 1 billion in turnover with 25% growth in sales combined with a profitability of 10%.

Profit before Tax more than doubled to Rs. 107.552 million while PAT tripled to Rs. 81.381 million.

Through the years, PRAJ has made an effort to reduce revenue expenditure by deploying better cost management practices. Praj has also put in place a 'Value Engineering' initiative which is expected to further improve profitability.

Interest expenditure reduced from Rs. 13.639 million to Rs. 5.648 million on an increased turnover. This was not only due to pre-payment of long term debt, but also due to better working capital management.

Earning per Share is at Rs. 10.03 (previous Year Rs. 2.99)

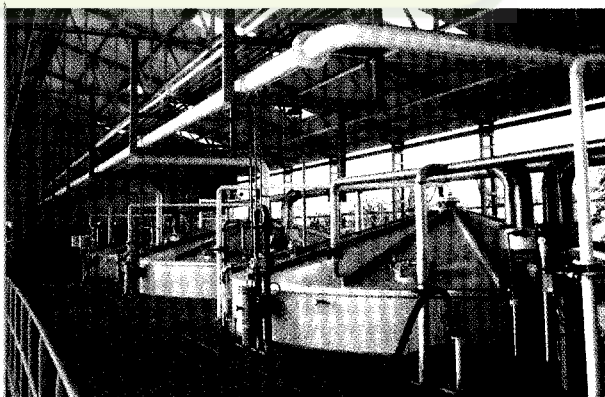
The Company's short term debt programme has been rated as P1 by ICRA which suggests highest safety.

Business Opportunities

Distillery

Ethanol has come a long way from the corn fields of USA and the sugarcane farms of Brazil. It has reached developing economies. While ethanol has been looked upon as the most effective transport emission control tool, of late ethanol has attained additional significance due to rising price of crude. At Oil barrel price between US\$ 35-40, ethanol certainly becomes an attractive proposition.

According to predictions, oil prices will remain at higher than \$30 a barrel for some time to come.



Working Capital
Turnover Ratio

01-02
02-03
03-04



Total Income

01-02
02-03
03-04



Cash Earnings
Per Share
(CEPS)

01-02
02-03
03-04



Return On
Capital Employed
(ROCE)

01-02
02-03
03-04



Praj Industries